Lee County Port Authority

A Component Unit of Lee County, Florida

Component Unit Financial Report

For the Fiscal Years Ended September 30, 2002 and 2001

Lee County Port Authority

Financial Statements

Years Ended September 30, 2002 and 2001

Lee County Port Authority

Lee County, Florida

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Lee County
Port Authority

Direct Dial: (239) 768-4300
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February 7, 2003

Dear Friends:

I am pleased to present the Lee County Port Authority's financial statements for the fiscal year ending September 30, 2002.

As you know, the events of September 11 have changed the way of doing business at our nation's airports. Increased security, terminal modifications, and the placement of bomb detection machines are all part of this evolution. The financial impacts have been significant; however, we were able to offset some of these impacts by effectively cutting costs. A ten percent operating reduction and a hiring freeze was implemented and held throughout the fiscal year. As a result of these measures, the participating airlines paid $2.3 million less in fees than the previous year. The final cost for these airlines serving the Airport amounted to $3.29 per enplaned passenger. This represents one of the lowest costs in the Airport history and remains significantly below the industry average for medium size airports.

Total passengers for the year were 5,185,648, a decrease of 1.74 percent, which is better than the national average. Nationwide, passenger traffic was down 4.7 percent for the year, according to the Air Transport Association. Total operating revenue for the year totaled $36.9 million, a decrease of less than 2 percent, while total operating expenses, before depreciation, increased by 2.5 percent to $27.2 million.

Construction of the Midfield Terminal Complex began in March 2002 and to date 90 percent of the project has been bid and awarded. The Transportation Security Administration is currently formulating policies and procedures to enhance airport security. These policies and procedures will impact the construction costs of the project. The Airport and its construction managers are working with the various federal agencies to identify potential funding sources for these expected increased costs.

The Port Authority continues to reinvest its funds in the revitalization of the Page Field General Aviation Airport. Completed projects this fiscal year included 26 T-hangars, corporate hangars, site remediation and angled taxiways. Current and future projects include additional hangars, ramp improvements and the restoration of the former terminal building. We are extremely proud of these accomplishments and remain committed to Page Field's success.

We are pleased with the results of the past fiscal year and are dedicated to providing a high level of safety and service to area residents, visitors and the business community.

Sincerely,

LEE COUNTY PORT AUTHORITY

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

RMB:BRS/amf

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Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the Lee County Port Authority's financial statements for fiscal year ending September 30, 2002. 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 2002, 2001, and 2000.

Table 1
Summary of Net Assets
September 30, 2002, 2001 and 2000
(000's)

	2002	2001	2000
Current and other assets	$374,583	$376,546	$376,483
Capital assets	277,605	252,814	233,435
Total assets	652,188	629,360	609,918
Current liabilities	12,045	7,447	7,118
Non-current liabilities	416,341	419,674	421,588
Total liabilities	428,386	427,121	428,706
Net assets:			
Investments in capital assets, net of related debt	105,362	86,978	65,691
Restricted	82,258	88,685	92,742
Unrestricted	36,182	26,576	22,779
Total net assets	$223,802	$202,239	$181,212

Note: Fiscal years 2000 and 2001 balances are restated. Additional information can be found in NOTE I on page 14, and NOTE XIII on page 24.

Summary of Net Assets Analysis

Total assets increased by $22.8 million and $19.4 million in 2002 and 2001, respectively. The 2002 increase is a result of a $6.0 million increase in cash, $2.5 million in excess Passenger Facility Charge (PFC) revenues over the required debt service coverage, a decrease of $12.6 million in non-current investments and an increase of $25.4 million in construction work in progress. The 2001 increase can be attributed to a net increase of $19.1 million in construction work in progress.

In 2002, total liabilities increased $1.3 million. Current liabilities increased by $4.6 million due to a $4.1 million increase in retainage. Non-current liabilities decreased by $3.3 million, which can be attributed to a decrease of $14.5 million in bonds payable, an increase of $2.7 million in arbitrage obligations and an increase of $8.4 million for the Series 2002 refunding note. In 2001, total liabilities decreased $1.6 million which can be attributed to a $1.0 million decrease in accounts payable and a $700 thousand decrease in airline refunds and rebates payable.

Table 2 reflects a summary of revenues and expenses for 2002, 2001, and 2000.

Table 2
Summary of Revenues and Expenses
September 30, 2002, 2001 and 2000
(000's)

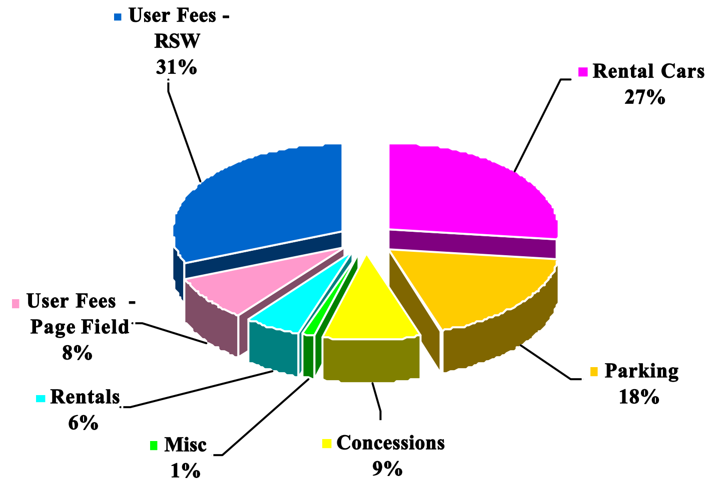
	2002	2001	2000
Revenues:			
User fees	$14,830	$16,451	$15,209
Rental cars	10,223	10,014	10,038
Parking	6,949	6,730	6,156
Other	4,916	4,199	3,704
Total revenues	36,918	37,394	35,107
Expenses:			
Salaries, wages and benefits	14,025	13,111	12,225
Contractual services, materials and supplies, repairs and maintenance, utilities	11,146	11,977	9,767
Other	9,004	8,145	8,302
Total expense	34,175	33,233	30,294
Non-operating revenues (expenses):			
Interest revenue	1,983	5,538	5,194
Interest expense	(4,943)	(6,041)	(6,497)
Passenger facility charges	6,488	7,236	6,724
Other revenues (expenses)	189	(228)	(51)
Total non-operating	3,717	6,505	5,370
Income before capital contributions	6,460	10,666	10,183
Capital contributions	15,103	10,361	8,527
Increase in net assets	21,563	21,027	18,710
Beginning net assets	202,239	181,212	162,502
Ending net assets	$223,802	$202,239	$181,212

Note: Fiscal years 2000 and 2001 balances are restated. Additional information can be found in NOTE I on page 14, and NOTE XIII on page 24.

Summary of Revenues and Expenses Analysis

Total income before capital contributions in 2002 was $6.5 million, a decrease of $4.2 million from 2001. This can be attributed to the following three factors: a decrease of $1.6 million in user fees, a decrease of $3.6 million in interest revenue and a decrease of $1.0 million in interest expense. Total income before capital contributions in 2001 was $10.7 million, an increase of $500 thousand from 2000. This was due to an increase in PFC revenues of $512 thousand.

The following chart shows the 2002 major sources of revenue as a percentage of total revenues:



Capital Assets

Table 3 reflects a summary of capital assets compared to prior year.

Table 3
Capital Assets
September 30, 2002, 2001 and 2000
(000's)

	2002	2001	2000
Land	$119,085	$119,085	$118,335
Building	57,508	54,273	55,175
Improvements	7,073	5,068	5,068
Equipment	15,201	14,901	13,958
Infrastructure	77,062	76,421	74,336
Subtotal	275,929	269,748	266,872
Work in progress	75,739	50,324	28,017
Less depreciation	(74,063)	(67,258)	(64,454)
Total	$277,605	$252,814	$233,435

Note: Fiscal years 2000 and 2001 balances are restated. Additional information can be found in NOTE I on page 14, and NOTE XIII on page 24.

Capital assets increased $24.8 million and $19.4 million in 2002 and 2001, respectively, due to various capital expenses less capitalized interest.

Significant capital expenditures for 2002 included $27.3 million for the Midfield Terminal Complex and $2.2 million for various Page Field projects such as building improvements, hangers, angled exits, and ramp rehabilitation. In 2001, significant capital expenditures included $16.0 million for the Midfield Terminal Complex, $1.5 million for Land Acquisition, $2.0 million for the Maintenance Facility and $1.3 million for T-Hangers.

Debt Administration

As of September 30, 2002, the Lee County Port Authority had $417.1 million in outstanding debt. During 2002, the Authority refinanced the outstanding Series 1992A and 1992B Series Airport Revenue Bonds to take advantage of lower interest rates. This refunding resulted in a net present value savings to the Authority of $2,435,612 and $413,654, respectively, and was completed without extending the term of the outstanding debt.

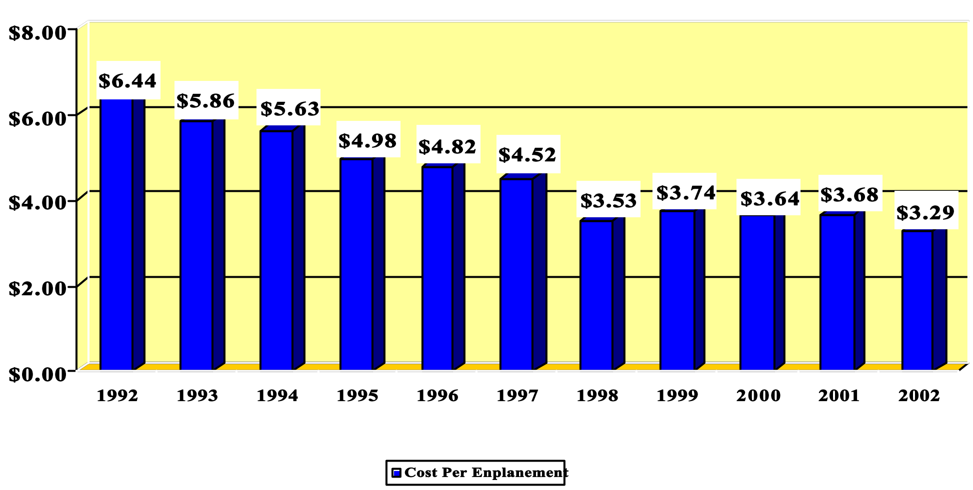
Table 4
Outstanding Debt
September 30, 2002 and 2001
(000's)

	2002	2001	2000
Series 2002 Airport Revenue Refunding Bond	$37,065		
Series 2002 Airport Revenue Refunding Note	8,400		
Series 2000A Airport Revenues Bonds	291,155	$291,155	$ 291,155
Series 2000B Airport Revenue Bonds	36,180	36,180	36,180
Series 1998 Passenger Facility Bonds	44,270	46,115	47,885
Series 1992A Airport Revenue Bonds		36,995	36,995
Series 1992B Airport Revenue Bonds		12,020	15,515
Total	$417,070	$422,465	$427,730

Airline Rates and Charges

In 1998 the Airport amended its Airport Use Agreement with ten airlines, known collectively as the Participating Airlines. The Agreement with the airlines uses a residual rate setting methodology. Each year actual revenues and expenses are compared to budget. Differences between actual and budget are returned annually to the airlines in a form of a refund. The Authority has the ability under the Agreement to adjust airline rates and charges at any time throughout the year to ensure adherence to all financial covenants in its bond resolutions. No such adjustments were required during 2002. In fiscal year 2002, the Airlines collectively shared a refund of $2,158,002. In addition, the Airlines collectively received $921,000, their pro rata share of the annual debt service coverage.

It is typical for the airline industry to measure their costs by its cost per enplaned passenger. The following chart shows the cost per enplanement at Southwest Florida International Airport over the past 10 fiscal years.



Impacts of September 11, 2001

Prior to the events of September 11, 2001, the Airport has historically experienced a 4.5 percent annual growth in passengers. For fiscal year ending September 30, 2002, total passengers were 5,107,243, a decrease of 8.16 percent when compared to the same period last year.

In response to the anticipated decrease in passenger activity and anticipated loss in non-aeronautical revenue, the Authority imposed a ten percent reduction in the operating budget and a hiring freeze. These measures were held throughout the year and resulted in a $1.6 million savings to the airlines. In addition, the Authority postponed certain capital improvement projects not related to the Midfield Terminal Complex. These projects included the expansion of the existing parking lots and terminal modifications.

Midfield Terminal Complex Update

Construction for the Midfield Terminal Complex commenced in March 2002. The project, which includes a 761,200 square foot terminal with 28 aircraft gates on three concourses, a 12,000 foot parallel taxiway, a three story parking garage, large surface parking areas, access roads, including a two level terminal roadway system and other improvements, is expected to be complete by the fourth quarter of 2005.

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, 16000 Chamberlin Parkway, Suite 8671, Fort Myers, Florida, 33913.

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Financial Statements

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2002 and 2001

(amounts expressed in thousands)

	2002	2001 (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$36,939	$33,405
Investments	342	
Receivables (net):		
Accounts	2,451	2,170
Grants	2,620	1,733
Accrued interest	3	
Due from other governments	193	3
Inventories	260	297
Other	955	608
Total current assets	43,763	38,216
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	27,904	25,123
Investments	283,745	296,293
Receivables (net):		
Accounts	899	898
Grants	2,996	18
Accrued interest	9,620	10,200
Capital assets (net)	277,605	252,814
Intangible assets	42	45
Unamortized bond costs	5,614	5,753
Total noncurrent assets	608,425	591,144
Total assets	$652,188	$629,360

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2002 and 2001

(amounts expressed in thousands)

	2002	2001 (as restated)
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	$3,525	$4,244
Accrued liabilities	546	528
Refunds and rebates	3,073	2,195
Due to other governments	97	42
Due to County		6
Customer deposits	182	125
Deferred revenues	262	104
Compensated absences	208	187
Capital leases payable- current		5
Total current liabilities	7,893	7,436
Current liabilities payable from restricted assets:		
Contracts and accounts payable	4,142	11
Due to other governments	10	
Notes	3,794	
Total current liabilities payable from restricted assets	7,946	11
Noncurrent liabilities:		
Compensated absences	272	222
Notes payable	4,606	
Revenue bonds payable	400,418	414,946
Other	7,251	4,506
Total noncurrent liabilities	412,547	419,674
Total liabilities	428,386	427,121
NET ASSETS		
Invested in capital assets, net of related debt	105,362	86,978
Restricted for:		
Capital Projects	37,808	30,357
Debt service	43,594	57,797
Renewal and Replacement	856	531
Unrestricted	36,182	26,576
Total Net Assets	$223,802	$202,239

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 FUND NET ASSETS

For the Years Ended September 30, 2002 and 2001

(amounts expressed in thousands)

	2002	2001 (as restated)
OPERATING REVENUES		
User fees	$14,830	$16,451
Rentals	2,069	1,825
Concessions	3,347	3,397
Parking Revenues	6,949	6,730
Rental Car Revenues	10,223	10,014
Miscellaneous	421	153
Total operating revenues	37,839	38,570
Less: Rebates	921	1,176
Net operating revenues	36,918	37,394
OPERATING EXPENSES		
Salaries and wages	10,576	9,693
Employee benefits	3,449	3,418
Contractual services, materials and supplies	8,255	9,066
Utilities	1,865	1,810
Repairs and maintenance	1,026	1,101
Insurance	716	468
Other	1,290	951
Depreciation and amortization	6,998	6,726
Total operating expenses	34,175	33,233
Operating income	2,743	4,161
NON-OPERATING REVENUES (EXPENSES):		
Interest revenue	1,983	5,538
Interest expense	(4,943)	(6,041)
Grants	619	
Gain (loss) on disposal of capital assets	88	(215)
Loss on discontinued projects	(402)	
Passenger facility charge	6,488	7,236
Other revenues	1	
Other expenses	(117)	(13)
Total non-operating revenues (expenses)	3,717	6,505
Income before capital contributions	6,460	10,666
Capital contributions	15,103	10,361
Change in net assets	21,563	21,027
Total net assets- beginning - as restated	202,239	181,212
Total net assets - ending	$223,802	$202,239

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, 2002 and 2001

(amounts expressed in thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$36,206	$42,417
Cash received (returned) from customer deposits	57	(8)
Other cash receipts	1	
Payments to suppliers	(12,888)	(13,097)
Payments to employees	(12,441)	(11,210)
Payment for County services used	(1,470)	(1,368)
Net cash provided by operating activities	9,465	16,734
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	461	
Net cash provided by noncapital financing activities	461	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	45,846	
Capital contributions	11,395	9,585
Proceeds from passenger facilities charges	6,488	7,236
Additions to capital assets	(26,956)	(24,694)
Principal paid on bonds, loans, leases, and County loans	(13,870)	(5,265)
Interest paid on bonds, loans, leases, and County loans	(23,753)	(24,736)
Transfer to refunding escrow agent	(37,968)	
Proceeds from sale of capital assets	91	3
Net cash used in capital and related financing activities	(38,727)	(37,871)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	12,207	10,601
Interest on investments	22,909	27,143
Net cash provided by investing activities	35,116	37,744
Net increase in cash and cash equivalents	6,315	16,607
Cash and equivalents at beginning of year	58,528	41,921
Cash and equivalents at end of year	$64,843	$58,528
Classified as:		
Current assets	$36,939	$33,405
Restricted assets	27,904	25,123
Totals	$64,843	$58,528
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in fair value of investments	$257	$2,173

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, 2002 and 2001

(amounts expressed in thousands)

	2002	2001
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$2,743	$4,161
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,998	6,726
Other revenues	1	
Other expenses		(13)
(Increase) decrease in accounts receivable	(281)	5,580
(Increase) in due from other governments	(190)	
(Increase) decrease in inventories	37	(8)
(Increase) in other assets	(347)	(72)
Increase (decrease) in contracts and accounts payable	(718)	396
Increase in accrued liabilities	18	514
Increase (decrease) in refunds and rebates	878	(699)
Increase in due to other governments	65	11
Increase (decrease) in due to County	(6)	6
Increase (decrease) in customer deposits	57	(8)
Increase in deferred revenues	158	91
Increase in compensated absences	71	49
(Decrease) in other liabilities	(19)	
Total adjustments	6,722	12,573
Net cash provided by operating activities	$9,465	$16,734

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

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 Department of Airports (including Page Field General Aviation Airport and the Southwest Florida International Airport) to the Port Authority. Although the Board retained ownership of the Port Authority's assets and liabilities, all 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 332.03, Florida Statutes, Lee County resolution Number 87-8-9, and subsequently, Lee County Ordinance Number 90-02, as amended.

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, 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 enterprise fund accounting 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 balance sheet, and the reported fund equity (total reported assets less total reported liabilities) provides an indication of the economic net worth of the Port Authority. The operating statement 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.

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. Pursuant to Governmental Accounting Standards Board Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Port Authority has elected not to apply accounting standards issued after November

30, 1989, by the Financial Accounting Standards Board.

The County has implemented Governmental Accounting Standards Board Statements Number 33, *Accounting and Financial Reporting for Non-exchange Transactions,* Number 37, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus- an amendment of GASB Statements No. 21 and No. 34,* and Number 38, *Certain Financial Statement Note Disclosures*.

In fiscal year 2001, the County elected to early implement Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*; therefore, the financial statements consist of a statement of net assets and a statement of revenues, expenses, and changes in fund net assets. Moreover, the statement of cash flows is prepared using the direct method. Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the Port Authority's financial activities.

Statement Nos. 33 and 34 affected the classification of net assets and the presentation of contributed contributions as a change in net assets. Prior to implementing Statement No. 34, infrastructure was classified as "Improvements other than buildings." With the implementation of Statement No. 34, infrastructure was classified as "Infrastructure" and is reflected in the beginning capital asset balances for fiscal year 2001.

Statement No. 38 requires certain disclosures to be made in the notes of the financial statements concurrent with the implementation of Statement No. 34. While Statement No. 38 did not affect amounts reported in the financial statements of the Port Authority, certain note disclosures have been added or amended.

Reclassifications

Certain amounts in the fiscal year 2001 financial statements have been reclassified to conform to current year presentation.

Assets, Liabilities, and Net Assets

Cash and Investments

The Port Authority shows all investments at fair value, with the exception of repurchase agreements and the Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration), an external 2A7 - like investment pool. All fair valuations are based on quoted market prices. The repurchase agreements and Local Government Surplus Funds Investment Pool Trust Fund's shares 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 is the same as the value of the pool shares.

The Port Authority considers highly liquid investments, including those held as restricted assets, with original maturities of three months or less when purchased to be cash equivalents.

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 allowance for doubtful accounts.

Inventory

Inventory, consisting primarily of materials and supplies, 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, plant, equipment, 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 property, plant and equipment, and infrastructure are $750 and $100,000, respectively. 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. The ranges of the useful lives are as follows:

Assets	Years
Buildings	30-50
Improvements other than buildings	6-50
Equipment	3-35
Furniture	4-20
Vehicles & rolling stock	3-10
Infrastructure	20-50

Intangible Asset

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 Discount and Issuance Costs

Discount and issuance costs related to long - term debt is amortized over the life of the debt principally by the effective - interest method. Revenue bonds payable are shown net of unamortized discount.

Unamortized Gains or Losses

Gains or losses from debt refundings are reported in the accompanying financial statements as an addition or a deduction to bonds payable and are charged to operations using the effective - interest method.

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 will be bought back annually by the Port Authority.

The Port Authority also maintains a separate policy for 27 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.

County Transactions

The Port Authority considers County receivables (due from County) and County liabilities (due to County) to be loan transactions to and from the County to cover temporary (three months or less) cash needs. Accordingly, the related receipts and payments are reported at a net amount for purposes of cash flow presentation.

NOTE II. CASH AND INVESTMENTS

Deposits

All Port Authority depositories are banks or savings institutions designated by the State Treasurer as qualified public depositories. Chapter 280, Florida Statutes "Florida Security for Public Deposits Act" provides procedures for public depositories to insure public monies in banks and savings and loans are collateralized with the Treasurer as an agent for the public entities.

Financial institutions qualifying as public depositories shall deposit with the Treasurer eligible collateral having a market value equal to or in excess of the average daily balance times the depository collateral - pledging level required pursuant to Chapter 280 as computed and reported monthly or 25 percent of the average monthly balance, whichever is greater. The Public Deposit Security Trust Fund has a procedure to allocate and recover losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof. Chapter 280 defines deposits as time deposit accounts, demand deposit accounts, and certificates of deposit. At September 30, 2002 and 2001, the bank balance of the Port Authority's deposits was $119,184 and $140,936, respectively.

Investments

The Port Authority's investments are made in accordance with the provisions of Section 218.415, Florida Statutes "Investment of Local Government Surplus Funds", Lee County Ordinance 93 - 08 "Authorizing the Investment of Surplus Public Funds in Shares of Investment Funds Created by the Florida Local Government Investment Trust; and Providing an Effective Date", Lee County Ordinance 01-08 "Establishing County Investment Policy Relating to the Duties of the Clerk of Courts; Providing for Investment Procedures and an Effective Date", and the Board of County Commissioners' Administrative Code 3 - 13 "Investment Policy for the Board of County Commissioners". Authorized investments include U.S. Government obligations, passbook savings accounts, tax - exempt state and municipal securities, certificates of deposit, repurchase agreements, bankers' acceptances, money market mutual funds, Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration), the Florida Local Government Investment Trust, and any other investments authorized by Florida Statute 218. Management believes there were no violations to this policy during the fiscal years ended September 30, 2002 and 2001.

Investments that are insured or registered, or securities held by the Port Authority or its agent in the Port Authority's name at September 30, 2002 and 2001, consisted of the following (dollars in thousands):

	Fair Value 2002	Fair Value 2001
U.S. Government agencies and instrumentalities	$29,393	$29,145
Overnight repurchase agreements	24,000	
Flex repurchase agreement	257,649	269,846
Total	$311,042	$298,991

The Local Government Surplus Funds Investment Pool Trust Fund is not categorized as it is not evidenced by securities that exist in physical or book entry form. These investments consisted of the following (dollars in thousands):

	Fair Value 2002	Fair Value 2001
Local Government Surplus Funds Investment Pool Trust Fund	$37,701	$61,550

The Port Authority invests funds throughout the year with the Local Government Surplus Funds Investment Pool Trust Fund (SBA), which is administered by the State Board of Administration, under the regulatory oversight of the State of Florida. As of September 30, 2002, the SBA contained floating rate notes totaling approximately $100 million at cost. These derivative investments, whose market value can fluctuate based on changes in interest rates, represented approximately .72 percent of total SBA investments and were purchased by the SBA to add relative value to the SBA portfolio. The Port Authority's investment in the SBA represented approximately .3 percent of the SBA's total investments. The total of investments at September 30, 2002 and 2001 were as follows (dollars in thousands):

	2002	2001
Total of investments	$348,743	$360,541

There were no losses during the period due to default by counterparties to investment transactions, and the Port Authority had no other types of investments during the period other than those enumerated above. The market value of securities underlying repurchase agreements met the required level during the year.

Reconciliation of Cash and Investments to the Financial Statements (dollars in thousands):

Cash and Investments:

	2002	2001
Change funds and petty cash	$22	$20
Cash on hand	46	75
Carrying value of deposits	119	(5,815)*
Investments previously disclosed	348,743	360,541
Total cash and investments	$348,930	$354,821

*The carrying value of deposits is shown as negative due to outstanding checks. Short-term investments are sold as needed to cover any short falls.

Cash and Investments per the Statements of Net Assets:

	2002	2001
Current:		
Cash and cash equivalents	$36,939	$33,405
Investments	342	
Restricted:		
Cash and cash equivalents	27,904	25,123
Investments	283,745	296,293
Total cash and investments	$ 348,930	$ 354,821

NOTE III. RECEIVABLES

At September 30, 2002 and 2001, accounts receivable consisted of the following (dollars in thousands):

		Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
2002	Unrestricted	$2,767	($316)	$2,451
	Restricted	899		899
	Total	$3,666	($316)	$3,350
2001	Unrestricted	$2,342	($172)	$2,170
	Restricted	898		898
	Total	$3,240	($172)	$3,068

NOTE IV. RESTRICTED NET ASSETS AND LIABILITIES

Restricted net assets of the Port Authority represent monies required to be restricted for debt service, renewal and replacement, and capital improvements and construction under the terms of outstanding bond agreements, resolutions, and other contractual agreements.

Net assets restricted for debt service are for the payment of bond principal, interest, and bond reserve requirements. Net assets restricted for renewal and replacement are for the payment of unusual or extraordinary maintenance or repairs. Additionally, net assets are restricted for capital improvements and construction. Net assets were restricted for the following purposes at September 30, 2002 and 2001 (dollars in thousands):

	2002	2001
Debt service	$43,594	$57,797
Renewal and replacement	856	531
Capital improvements and construction	37,808	30,357
Total	$82,258	$88,685

NOTE V. CAPITAL ASSETS

Capital asset activity for the fiscal years ended September 30, 2002 and 2001, were as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2002				
Capital assets not being depreciated:				
Land	$119,085			$119,085
Construction in progress	50,324	$36,643	($11,228)	75,739
Total capital assets not being depreciated	169,409	36,643	(11,228)	194,824
Capital assets being depreciated:				
Buildings	54,273	3,235		57,508
Improvements other than buildings	5,068	2,005		7,073
Machinery and equipment	14,901	494	(194)	15,201
Infrastructure	76,421	641		77,062
Total capital assets being depreciated	150,663	6,375	(194)	156,844
Less accumulated depreciation for:				
Buildings	19,312	1,802		21,114
Improvements other than buildings	2,601	264		2,865
Machinery and equipment	7,419	1,287	(190)	8,516
Infrastructure	37,926	3,642		41,568
Total accumulated depreciation	67,258	6,995	(190)	74,063
Total capital assets being depreciated, net	83,405	(620)	(4)	82,781
Fiscal Year 2002 capital assets, net	$252,814	$36,023	($11,232)	$277,605
Fiscal Year 2001 *(as restated)*				
Capital assets not being depreciated:				
Land	$118,335	$750		$119,085
Construction in progress	28,017	30,488	($8,181)	50,324
Total capital assets not being depreciated	146,352	31,238	(8,181)	169,409
Capital assets being depreciated:				
Buildings	55,175		(902)	54,273
Improvements other than buildings	5,068			5,068
Machinery and equipment	13,958	1,182	(239)	14,901
Infrastructure	74,336	2,085		76,421
Total capital assets being depreciated	148,537	3,267	(1,141)	150,663
Less accumulated depreciation for:				
Buildings	18,230	1,820	(738)	19,312
Improvements other than buildings	2,335	266		2,601
Machinery and equipment	6,320	1,283	(184)	7,419
Infrastructure	34,569	3,357		37,926
Total accumulated depreciation	61,454	6,726	(922)	67,258
Total capital assets being depreciated, net	87,083	(3,459)	(219)	83,405
Fiscal Year 2001 capital assets, net	$233,435	$27,779	($8,400)	$252,814

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 also capitalized. Net interest expense capitalized for the years ended September 30, 2002 and September 30, 2001, were $1,693,603 and $863,386, 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. All leases can be cancelled with thirty days notice.

At September 30, 2002, minimum future rentals of operating leases were as follows (dollars in thousands):

Fiscal Year(s)	Amount
2003	$11,200
2004	11,257
2005	11,264
2006	11,259
2007	2,452
Total minimum future revenue	$47,432

For the years ended September 30, 2002 and 2001, rental revenue included $10,264,283 and $2,505,380, respectively, in contingent rentals.

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, 2002 and 2001, consisted of the following:

- Series 1992A Airport Revenue Bonds for $36,995,000 at interest rates ranging from 5.5 percent to 5.9 percent (effective interest rate of 6.8 percent), collateralized by a lien on and a pledge of the net revenues of the Lee County Port Authority. The outstanding balance at September 30 2002 and 2001, was $0 and $36,995,000 respectively.

- Series 1992B Taxable Airport Revenue Bonds for $49,090,000 at interest rates ranging from 3.45 percent to 7.1 percent (effective interest rate of 6.7 percent), collateralized by a lien on and a pledge of the net revenues of the Lee County Port Authority. The outstanding balance at September 30, 2002 and 2001, was $0 and $12,020,000 respectively.

- Series 1998 Passenger Facility Charge Revenue and Refunding Bonds for $52,225,000 at interest rates ranging from 3.6 percent to 5 percent (effective interest rate of 5.21 percent), collateralized by a lien on and a pledge of the passenger facility charge revenues. The outstanding balance at September 30, 2002 and 2001, was $44,270,000 and $46,115,000, respectively.

- Series 2000A (AMT) Airport Revenue Bonds, for $291,155,000 at interest rates ranging from 5.4 percent to 6.125 percent (effective interest rate of 6.16 percent), collateralized by a lien on and a pledge of the net revenues of the Lee County Port Authority. The outstanding balance at September 30, 2002 and 2001, was $291,155,000 and $291,155,000, respectively.

- Series 2000B (Non-AMT) Airport Revenue Bonds, for $36,180,000 at an interest rate of 5.75 percent (effective interest rate of 6.1 percent), collateralized by a lien on and a pledge of the net revenues of the Lee County Port Authority. The outstanding balance at September 30, 2002 and 2001, was $36,180,000 and $36,180,000, respectively.

- Series 2002 Airport Revenue Refunding Bonds for $37,065,000 at interest rates ranging from 2.0 percent to 5.0 percent (effective interest rate of 5.59 percent), collateralized by a lien on and a pledge of the net revenues of the Lee County Port Authority. The outstanding balance at September 30, 2002 and 2001 was $37,065,000 and $0, respectively.

The total revenue bonds payable at September 30, 2002 and 2001, was $408,670,000 and $422,465,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2002, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2003		$11,446	$11,446
2004	$2,520	22,845	25,365
2005	2,620	22,746	25,366
2006	7,500	22,531	30,031
2007	7,825	22,226	30,051
2008-2012	44,425	105,746	150,171
2013-2017	58,100	92,353	150,453
2018-2022	63,655	74,408	138,063
2023-2027	74,425	55,191	129,616
2028-2032	99,150	29,647	128,797
2033-2037	48,450	2,841	51,291
Total	$408,670	$461,980	$870,650

The following is a summary of bond transactions of the Port Authority for the years ended September 30, 2002 and 2001 (dollars in thousands):

	2002	2001
Beginning balance	$422,465	$427,730
Additions	37,065	
Reductions	(50,860)	(5,265)
Bonds payable at end of fiscal year	$408,670	$422,465
Less unamortized discount	(5,240)	(6,828)
Less unamortized accounting loss	(3,012)	(691)
Bonds payable at end of fiscal year, net	$400,418	$414,946

Bond Resolutions

The Airport Revenue Bonds, Series 2000A (AMT), Airport Revenue Bonds, Series 2000B (non-AMT), and Airport Revenue Refunding Bonds, Series 2002 are collateralized by a lien on and a pledge of the net revenues from the operation of the Airports. The Port Authority has agreed to maintain such fees and rates to provide revenues sufficient to pay all current expenses of the Airports 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 Passenger Facility Charge Revenue and Refunding Bonds, Series 1998, are payable from and collateralized by a lien on and a pledge of the passenger facility charge (PFC) revenues. PFC revenues consist of all monies received by the Port Authority from PFC's and all interest earned on such monies. PFC's are discussed in Note X.

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:
- Passenger Facility Charge Revenue and Refunding Bonds, Series 1998
- Airport Revenue Bonds, Series 2000A
- Airport Revenue Bonds, Series 2000B
- Airport Revenue Refunding Bonds, Series 2002

Refunding/Extinguishment of Debt

On July 9, 2002, the Port Authority issued Airport Revenue Refunding Bonds, Series 2002 in the amount of $37,065,000 at interest rates ranging from 2.0 percent to 5.0 percent and maturing in fiscal years 2004 through 2011. Proceeds of the bonds were used to currently refund $36,995,000 of outstanding Airport Revenue Bonds, Series 1992A, at interest rates ranging from 5.5 percent to 5.9 percent on current interest paying bonds maturing in fiscal years 2006 through 2011.

The Port Authority purchased U.S. Government Securities which were placed in an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded portion of the Series 1992A Airport Revenue Bonds. As a result, the refunded portion of the Series 1992A Airport Revenue Bonds is considered defeased, and the liability for the bonds has been removed from the financial statements.

The current refunding resulted in a reduction of the future debt service requirements by $3,424,635, which resulted in an economic gain (the difference between the present values of the old debt and new debt service requirements) of $2,435,612.

On September 30, 2002, the Port Authority issued Airport Revenue Refunding Note, Taxable Series 2002, in the amount of $8,400,000 at an interest rate of 2.65 percent maturing in fiscal year 2005. Proceeds of the note were used to currently refund $8,280,000 of outstanding Taxable Airport Revenue Bonds, Series 1992B at interest rates ranging from 7.05 percent to 7.10 percent on current interest paying bonds maturing in fiscal years 2004 through 2005.

The Port Authority purchased a U.S. Treasury money market instrument which was placed with a paying agent to provide for all future debt service requirements on the refunded portion of the Series 1992B Taxable Airport Revenue Bonds. As a result, the refunded portion of the Series 1992B Taxable Airport Revenue Bonds is considered defeased, and the liability for the bonds has been removed from the financial statements.

The current refunding resulted in a reduction of the future debt service requirements by $531,833, which resulted in an economic gain (the difference between the present values of the old debt and new debt service requirements) of $413,654.

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, 2002 and 2001, consisted of the following (dollars in thousands):

	2002	2001
Airport Revenue Bonds, Series 1980	$20,610	$22,355
Airport Revenue Bonds, Series 1983	14,860	16,060
Airport Revenue Bonds, Series 1992A	36,995	
Total outstanding	$72,465	$38,415

Note Payable

The Port Authority has entered into a loan agreement with SunTrust Bank to borrow $8,400,000 to refinance the Taxable Airport Revenue Bonds, Series 1992B at an interest rate of 2.65 percent. The principal is payable in monthly installments maturing in fiscal year 2005. The loan is collateralized by a lien on and a pledge of the net revenues of the Lee County Port Authority. The outstanding balance at September 30, 2002 and 2001 was $8,400,000 and $0, respectively.

The annual debt service requirements for the note payable at September 30, 2002, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2003	$3,794	$165	$3,959
2004	4,247	72	4,319
2005	359	1	360
Total	$8,400	$238	$8,638

The following is a summary of note transactions of the Port Authority for the years ended September 30, 2002 and 2001 (dollars in thousands):

	2002	2001
Beginning balance	$0	$0
Additions	8,400	
Reductions		
Note payable at end of fiscal year	$8,400	$0

Operating Leases

The Port Authority is currently committed to various operating leases with terms in excess of one year. The future minimum rental payments as of September 30, 2002, were as follows (dollars in thousands):

Fiscal Year	Amount
2003	$101
2004	87
2005	64
2006	44
2007	42
Total minimum payments required	$ 338

The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2002 and 2001, were $126,672 and $131,568, respectively.

Compensated Absences

The following is a summary of compensated absences transactions for the Port Authority for the years ended September 30, 2002 and 2001 (dollars in thousands):

	2002	2001
Beginning balance	$409	$360
Additions	1,047	980
Reductions	(976)	(931)
Compensated absences payable at end of fiscal year	$480	$409

NOTE VII. 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 noncontributory and is totally administered by the State of Florida. Benefits under the plan vest after six years of service. Employees who retire at or after age 62, with six years of credited service, are entitled to 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.

Pension costs for the Port Authority as required and defined by State statute were 10 percent and 12 percent of gross salaries for fiscal years 2002 and 2001, respectively. For the fiscal years ended September 30, 2002, 2001, and 2000, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated $1.1 million, $1.2 million, and $1.2 million, respectively, which represents 10 percent, 12 percent, and 14 percent of covered payroll.

A copy of the FRS's June 30, 2001, annual report can be obtained by writing to the Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399 - 1560, or by calling (850) 488 - 5706.

NOTE VIII. RISK MANAGEMENT

The Port Authority is a member of Public Risk Management of Florida (PRM), a local government liability risk pool. PRM administers insurance activities relating to property, crime, general, automobile, and public officials' liability, workers' compensation, and vehicle physical damage. PRM absorbs losses up to a specified amount annually and purchases excess and other specific coverages from third - party carriers.

PRM assesses each member its pro - rata share of the estimated amount required to meet current year losses and operating expenses. If total member assessments (premiums) do not produce sufficient funds to meet its obligations, PRM can make additional assessments within predetermined limits. For the fiscal years ended September 30, 2002 and 2001, the Port Authority was assessed $479,050 and $405,255, respectively. There were no additional assessments for fiscal years 2002 and 2001. In years prior to fiscal year 1988, the Port Authority, through Lee County, was self - insured for the coverages obtained through PRM.

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, 2002 and 2001, the Port Authority was charged $1,409,256 and $1,369,135, 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; injuries to employees; and natural disasters. Insurance coverage for such losses is purchased from third - party carriers. For the fiscal years ended September 30, 2002 and 2001, the Port Authority paid $237,253 and $170,529, respectively, to third - party carrier. Settled claims have not exceeded insurance coverage in any of the past four years.

NOTE IX. COMMITMENTS AND CONTINGENCIES

At September 30, 2002 and 2001, the Port Authority had in process various construction contracts totaling $89,015,000 and $37,108,000, respectively. Costs on these contracts as of September 30, 2002 and 2001, totaled $43,275,000 and $33,542,000, respectively, including retainage payable of $1,809,000 and $200,000, respectively.

The Port Authority is currently receiving, and has received in the past, grants which 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) can be offset by any negative arbitrage (non-liability). These rebates constitute a liability of the Port Authority, which are reported as other liabilities.

NOTE X. PASSENGER FACILITY CHARGE

On August 31, 1992, the Federal Aviation Administration (FAA) approved the imposition of a $3.00 passenger facility charge (PFC) per enplaned passenger to begin on November 1, 1992, and to end at the earlier of October 31, 2022, or the collection of $244,799,000 in passenger facility charges and interest. The funds are restricted for use on projects approved by the FAA. The funds are collected by the airlines when the tickets are sold and remitted to the Port Authority net of a collection fee, which is currently eight cents ($.08) per passenger facility charge, remitted. Amounts shown as revenue are net of the collection allowance.

NOTE XI. AIRLINE USE AGREEMENTS

Participating Airlines

The Port Authority currently has long - term leases and a participating use agreement (use agreement) with nine airlines (participating airlines) which expire on December 31, 2008. Under the use agreement, landing fees are calculated so that the aggregate landing fees of the participating airlines and all other operating revenues of the Port Authority total to at least the sum of operating expenditures, 1.25 times annual debt service, and certain other payments.

Each participating airline pays fees and charges under its use agreement as follows: (a) landing fees; (b) a terminal exclusive use fee based upon the square footage leased; (c) a gate area charged for the use of passenger hold rooms and the aircraft parking apron; (d) a baggage claim area charge; (e) a cargo building use fee based upon the square footage leased; (f) security charges; and (g) overuse charges.

Under the use agreement, on or before October 1 of each year, the Port Authority calculates the landing fee rates and other use fees for the upcoming fiscal year based upon estimates of anticipated operating revenues, operating expenses, debt service, and debt service coverage and advises the participating airlines of such rates and charges. At any time during the fiscal year, the Port Authority may on its own motion, or at the request of the participating airlines, adjust such charges to better approximate the final landing fees and other charges for the fiscal year. Landing fees and other charges are payable by the participating airlines monthly. Within ninety days of the close of the fiscal year, the Port Authority computes the final rates and charges for the fiscal year based upon actual results of activity, operating revenues, operating expenditures, debt service, and debt service coverage and either bills the airlines for any additional charges due or refunds any overpayments.

The use agreement grants each participating airline (a) the preferential, but not exclusive, right to use assigned gate positions and aircraft parking locations at the Airport Terminal Building; (b) the exclusive right to use assigned ticket counters, as well as operations and office space in the Airport

Terminal Building; (c) exclusive use of assigned space within the Airline Cargo Building; and (d) the right to use in common with other airlines the baggage claim area.

The use agreement also provides that the participating airlines will cease operations in the existing terminal building and will relocate such operations to the Midfield Terminal Building when it is completed and ready for operation. The Midfield Terminal is more fully discussed in Note XII.

Within ninety days of the fiscal year end, the participating airlines are paid a portion of the debt service coverage (the rebate). Each participating airline is paid a percentage of the rebate based upon the airline's pro - rata share of the fees paid by all participating airlines during the fiscal year.

Under the use agreement, a majority - in - interest (MII) of the participating airlines must approve any capital expenditure in excess of the capital amount (currently $100,000) or capital expenditures which when totaled together in any fiscal year exceed the annual limitation (currently $500,000). An MII must also approve any capital expenditure proposed to be financed in whole or in part with revenue bonds secured by a pledge of general airport revenues. An MII is defined as a majority of the participating airlines which when added together account for more than fifty percent of all fees paid by the participating airlines.

Under these agreements, the participating airlines paid the Port Authority $8,380,230 and $10,621,731, in fiscal years 2002 and 2001, respectively. Fees paid by Delta Airlines represented 6.0 percent and 7.8 percent of total airport revenues for fiscal years 2002 and 2001, 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 participating airlines. Nonparticipating airlines are assessed fees no less than those paid by the participating airlines and do not share in any rebates.

NOTE XII. MIDFIELD TERMINAL PROJECT

Airport Revenue Bonds, Series 2000A and B, for $327,335,000 were sold on March 2, 2000, and subsequently closed on March 23, 2000, for the Port Authority Midfield Terminal project. The revenue bonds are backed by a lien on and a pledge of the net revenues of the Port Authority. Construction began in March 2002 and to date approximately 90 percent of the project has been bid and awarded. The 28-gate, 761,200-square foot terminal complex is expected to open in 2005.

The Transportation Security Administration (TSA) is currently formulating policies and procedures to enhance airport security. It is expected that these procedures and required equipment will impact the construction costs of the Midfield terminal Project.

NOTE XIII. PRIOR PERIOD ADJUSTMENT

In prior years, the County recorded capitalized interest from the Series 2000A and 2000B Airport Revenue Bonds for the Midfield Project. However, the County failed to reduce its capitalized interest by all of the related interest earnings. As a result of this error, capitalized assets, net assets, and interest revenue were overstated. The effects of this adjustment on the previously reported financial statement amounts were as follows (dollars in thousands):

	2001 As Previously Reported	2001 As Restated
Statements of Net Assets:		
Capital assets, net	$262,513	$252,814
Total non-current assets	600,843	591,144
Total assets	639,059	629,360
Invested in capital assets, net of related debt	96,677	86,978
Total Net Assets	$211,938	$202,239
Statements of Revenues, Expenses, and Changes in Fund Net Assets:		
Interest revenue	$11,634	$5,538
Total non-operating revenues	12,601	6,505
Income before capital contrib.	16,762	10,666
Change in net assets	27,123	21,027
Total net assets- beginning	184,815	181,212
Total net assets- ending	$211,938	$202,239

The restatement had no effect on the Statement of Cash Flows.

PASSENGER FACILITY CHARGE REVENUE REPORT
LEE COUNTY PORT AUTHORITY

Total Enplaned Passengers	Eligible Enplaned Passengers	Net PFC Cash Collections	Interest Income	Total PFC Revenue
2,543,254	2,472,425	$6,486,923	$458,555	$6,945,478

ESTIMATED DEBT SERVICE COVERAGE

Actual PFC Revenues	Actual 2002 PFC debt service requirements	Actual debt service factor
$6,945,478	$4,065,929	2.41

Lee County Port Authority

Southwest Florida International Airport

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