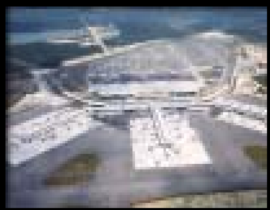
Lee County Port Authority

A Component Unit of Lee County, Florida



Component Unit Financial Report

Fiscal Years Ended September 30, 2005 and 2004

Lee County Port Authority

Financial Statements

Years Ended September 30, 2005 and 2004

Photographs in this report provide by the Lee County Port Authority.
About the cover: Depicts the progression of the New Midfield Terminal's construction.

Lee County Port Authority

Lee County, Florida

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Lee County Port Authority

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

David M. Owen
Port Authority Attorney

Direct Dial: (239) 590-4400
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January 26, 2006

Dear Friends:

I am pleased to present the Lee County Port Authority's financial results for the fiscal year ending September 30, 2005.

Fiscal year 2005 was another record-breaking year for the Southwest Florida International Airport. Total passenger traffic was 7,419,582, an increase over the prior year of 14%. Total operating revenues were $64.2 million, a year-over-year increase of $16.1 million, while operating expenses before depreciation were $39.7 million, totaling an increase of just $5.2 million for the same period. These factors have resulted in a combined refund of $2.6 million to our airline partners and a net cost per enplaned passenger of $4.99.

This past fiscal year was highlighted by the move into the new terminal complex which took place on September 9, 2005. We are extremely proud of this achievement as the terminal reflects the character of Southwest Florida while serving our customers more comfortably and efficiently. One of the final steps in the project will be the demolition of the former terminal, opening the door to new commercial revenue opportunities through redevelopment.

The Port Authority continues to invest in the revitalization of the Page Field General Aviation Airport. To date approximately $5 million of the $10 million line of credit secured last year has been advanced to fund various projects. These projects, which include 68 new T-hangars, initial design of the General Aviation terminal, as well as infrastructure improvements, are expected to attract new tenants, while taking care of the needs of existing airport users and customers.

We are extremely pleased with the results of the past fiscal year as well as the transition into the new terminal. For the new year, we look forward to serving the residents and business community at both the Southwest Florida International Airport and the Page Field General Aviation Airport.

Sincerely,

LEE COUNTY PORT AUTHORITY

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

RMB:PJD/db
Enclosure

Southwest Florida International Airport
11000 Terminal Access Road, Suite 8671 · Fort Myers, Florida 33913-8899
www.flylcpa.com

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

To the Board of Port Commissioners
of Lee County, Florida:

We have audited the accompanying financial statements of the Lee County Port Authority (a blended component unit) of Lee County, Florida (County) as of and for the years ended September 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Lee County Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Port Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lee County Port Authority as of September 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 1 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Lee County Port Authority's financial statements. The information included in the supplemental schedules is presented for purposes of additional analysis and is not a required part of the financial statements of the Lee County Port Authority. Such additional information has not been subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

KPMG LLP

December 16, 2005
Certified Public Accountants

Management's Discussion and Analysis

(unaudited)

This discussion and analysis is intended to serve as an introduction to the Lee County Port Authority's financial statements for fiscal years ending September 30, 2005 and 2004. 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 2005, 2004, and 2003.

Table 1
Summary of Net Assets
September 30, 2005, 2004 and 2003
(000's)

	2005	2004	2003
Current and other assets	$144,866	$234,614	$339,896
Capital Assets	649,237	548,717	383,627
Total assets	794,103	783,331	723,523
Current liabilities	29,024	56,249	44,312
Non-current liabilities	393,838	397,280	409,240
Total liabilities	422,862	453,529	453,552
Net assets:			
Invested in capital assets, net of related debt	293,883	249,748	172,322
Restricted	13,474	17,971	56,670
Unrestricted	63,884	62,083	40,979
Total net assets	$371,241	$329,802	$269,971

Summary of Net Assets Analysis

In 2005, total current and other assets and current liabilities decreased $89,748,000 and $27,225,000, respectively, due to the Midfield Terminal Complex construction which resulted in a decrease of $68,000,000 in cash and investments, a $23,069,000 decrease in grants receivable, and a decrease of $16,827,000 in contracts and accounts payable. In addition, current liabilities decreased $9,405,000 due to an arbitrage rebate payment.

In 2004, total assets increased by $59,808,000. This increase was primarily the result of the Midfield Terminal Complex construction which increased construction in progress by $165,000,000 and decreased investments by $103,000,000.

Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2005, 2004 and 2003.

Table 2
Summary of Revenues, Expenses, and Charges in Net Assets
For the Years Ended September 30, 2005, 2004 and 2003
(000's)

	2005	2004	2003
Revenues:			
User fees	$31,499	$19,735	$17,605
Rental cars	14,418	12,488	11,451
Parking	10,273	8,636	7,770
Other	8,083	7,257	5,986
Total revenues	64,273	48,116	42,812
Expenses:			
Salaries, wages and benefits	19,675	17,318	15,343
Contractual services, materials and supplies, repairs and maintenance, utilities	16,670	13,780	13,013
Other	13,294	17,118	17,132
Total expenses	49,639	48,216	45,488
Operating income (loss)	14,634	(100)	(2,676)
Non-operating revenues (expenses):			
Investment earnings	1,823	(37)	643
Interest expense	(4,408)	(4,496)	(4,690)
Passenger facility charges	15,616	12,878	7,930
Other revenues (expenses)	1,340	(127)	14
Total non-operating	14,371	8,218	3,897
Income before capital contributions	29,005	8,118	1,221
Capital contributions	12,434	51,713	44,948
Increase in net assets	41,439	59,831	46,169
Beginning net assets	329,802	269,971	223,802
Ending net assets	$371,241	$329,802	$269,971

Summary of Revenues and Expenses Analysis

In 2005, income before capital contributions was $29,005,000, an increase of $20,887,000 from 2004. This was due, in part, to an increase in user fees of $11,764,000 as a result of rate increases needed to fund the debt service on the Midfield Terminal. In addition, rental car revenues increased $1,930,000, parking lot revenues increased $1,637,000, and passenger facility charges increased $2,738,000 as a result of increased passenger traffic. Investment income also increased $1,860,000 and other revenues increased $1,423,000. Operating expenses increased as well in 2005 by $1,423,000 due to additional positions, rising health and retirement costs, janitorial costs, parking lot management fees, increases to insurance premiums, and utilities resulting from the new Midfield Terminal.

Income before capital contributions in 2004 was $8,118,000, an increase of $6,897,000 from 2003. This can be attributed to the $2,130,000 increase in user fees, a $1,037,000 increase in rental car revenues, an $866,000 increase in parking lot revenues, and a $4,948,000 increase in passenger facility charges (in November 2004, the Airport was granted authority to raise the passenger facility collection from $3.00 to $4.50 per departing passenger). In addition, total operating expenses increased by $2,728,000 in 2004. Increases in this category were in salaries and benefits, due to new positions and rising health and retirement costs; insurance due to increased premiums, and miscellaneous repair and maintenance items.

Capital Assets

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

Table 3
Capital Assets
September 30, 2005, 2004 and 2003
(000's)

	2005	2004	2003
Land	$127,208	$127,208	$127,208
Construction in progress	27,715	355,745	183,961
Building	331,066	59,560	57,583
Improvements	18,071	8,243	7,150
Equipment	27,749	16,095	15,986
Infrastructure	228,427	83,073	79,720
Subtotal	760,236	649,924	471,608
Less accumulated depreciation	(110,999)	(101,207)	(87,981)
Total	$649,237	$548,717	$383,627

Capital assets increased by $100,520,000 and $165,090,000 in 2005 and 2004, respectively. Significant capital expenditures for 2005 included $87,343,000 for the Midfield Terminal Complex and $3,966,000 for various Page Field projects, including terminal building improvements and new hangars. Significant capital expenditures for 2004 included $114,900,000 for the Midfield Terminal Complex and $2,000,000 for various Page Field projects.

Debt Administration

As of September 30, 2005, the Lee County Port Authority had $399,400,000 in outstanding debt. This is a decrease of $4,613,000 due to principal payments. In July 2004, the Airport entered into a $10,000,000 Line Of Credit Agreement with SunTrust bank to fund various Page Field projects. As of September 30, 2005, the total outstanding amount on this line was $3,370,000.

Table 4
Outstanding Debt
September 30, 2005, 2004 and 2003
(000's)

	2005	2004	2003
Series 2002 Airport Revenue Refunding Bond	$30,440	$35,850	$36,465
Series 2002 Airport Revenue Refunding Note			4,256
2004 Line of Credit Note	3,370	483	
Series 2000A Airport Revenue Bonds	291,155	291,155	291,155
Series 2000B Airport Revenue Bonds	36,180	36,180	36,180
Series 1998 Passenger Facility Bonds	38,255	40,345	42,350
Total	$399,400	$404,013	$410,406

Passenger Facility Charges

In November 1992, the Airport received approval from the Federal Aviation Administration to impose a Passenger Facility Charge (PFC) of $3.00 per eligible enplaned passenger. In 1998, the Airport issued PFC Revenue Bonds for $52,225,000 to fund eligible capital improvements and land acquisition. In November 2003, the Airport was granted authority to raise the PFC level from $3.00 to $4.50 and increase the total collection authority to $260,837,000 with an estimated collection date of April 2017. Since inception, the Airport has collected $99,415,000 (including investment earnings). Expenditures during the same period on PFC approved projects and debt service costs totaled $127,604,000.

Airport Activities

Total passengers for fiscal year 2005 were 7.4 million, nearly a 14 percent increase over the prior year. According to the Air Transport Association, traffic nationally was up 4.9 percent for the same period. Below is a summary of increased airline service to Southwest Florida International Airport over the past year.

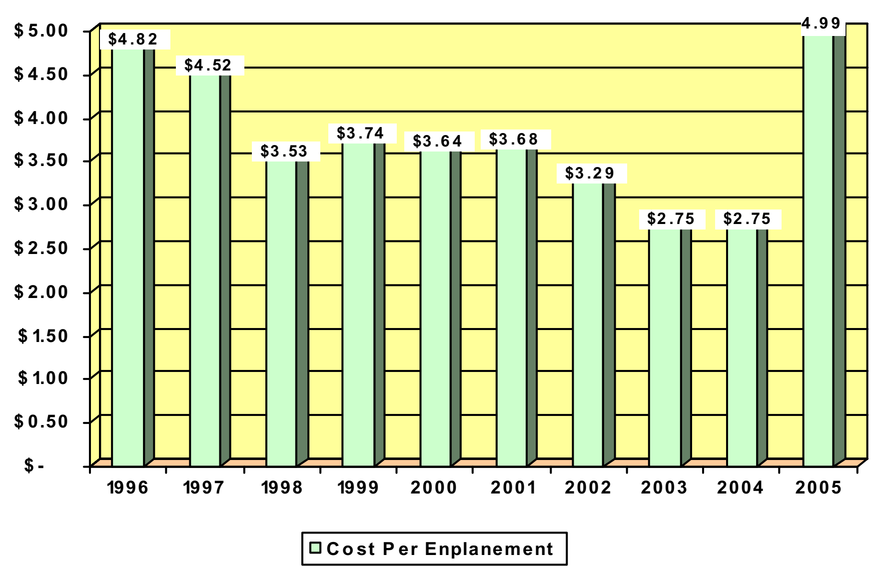
- ✈ Spirit inaugurated daily non stop service to Providence RI, which qualified for the airline incentive program. After 9/11 the Airport adopted an Airline Incentive Program. The program was adopted to attract airlines to certain non-stop destinations both domestic and international. Qualifying airlines must provide daily non stop service for one year and will receive a reduction in fees paid to the Airport.

- Northwest inaugurated daily non stop service to Indianapolis and Milwaukee.
- LTU inaugurated a direct flight to Munich, Germany.
- JetBlue inaugurated service to Boston and Newark-Liberty.
- Independence Air signed on as a Participating Airline with service to Washington Dulles which qualified for the incentive program.
- Comair, a subsidiary of Delta, started two daily non stop flights to Hartford, Connecticut with regional jets.
- Southwest announced service to begin in October 2005, with non stop service to Chicago-Midway, Baltimore, Orlando, Philadelphia, and Long Island-Islip. Islip qualifies for the incentive program and completes the original domestic routes for the Airport's incentive program.
- The Airport now offers non stop service to all of our top 20 origin and destination markets.

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 2005. In fiscal year 2005, the Airlines collectively shared a refund of $2,625,000. In addition, the Airlines collectively received $302,000, 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. 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. In 2005, the cost per enplanement increased due to an increase in debt service for the Midfield Terminal.



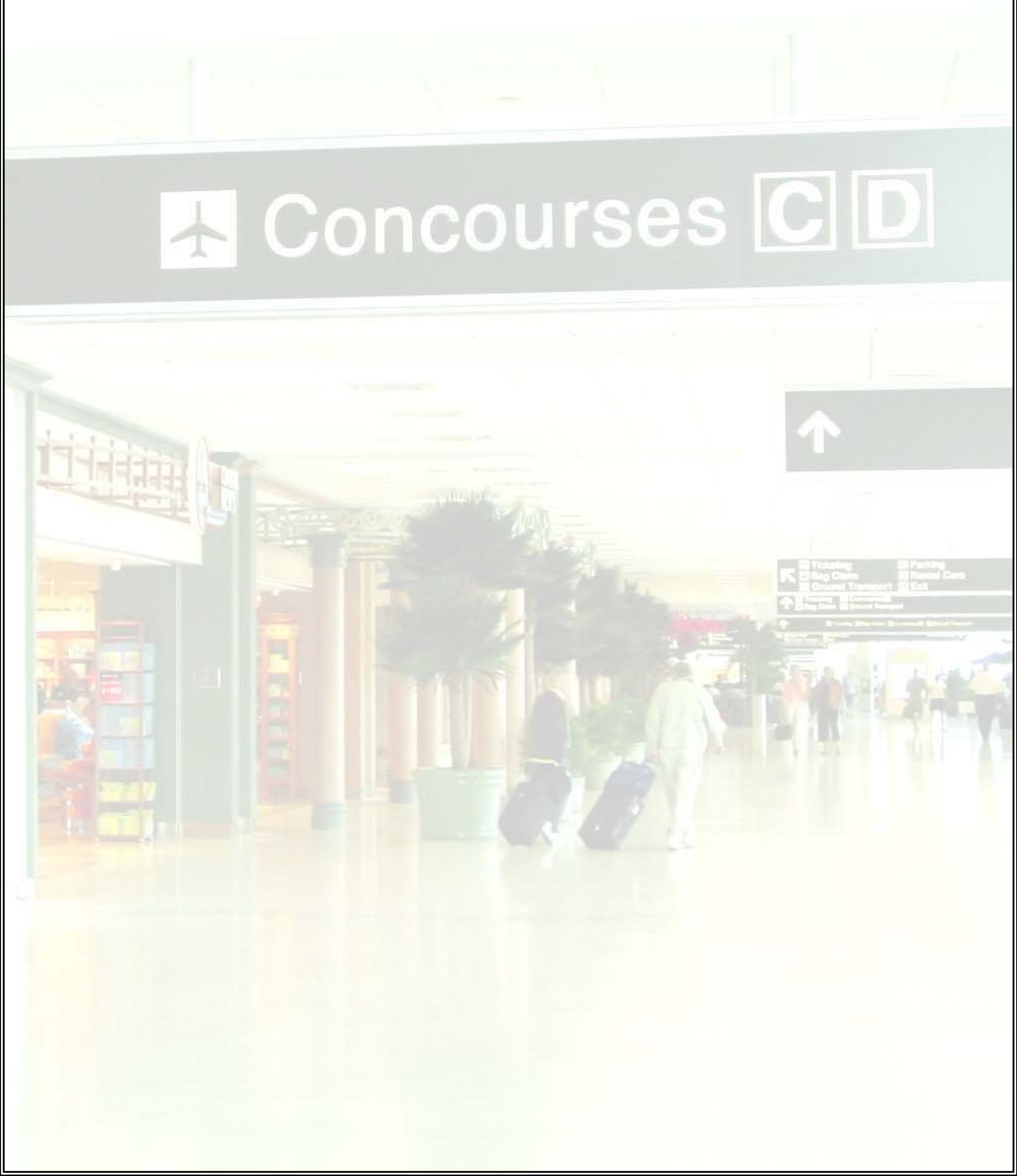
Midfield Terminal Complex Update

Construction for the Midfield Terminal Complex commenced in March 2002. The project included a 785,000 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. On September 9, 2005, the new Midfield Terminal opened and all operations in the old terminal ceased.

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



LEE COUNTY PORT AUTHORITY
Lee County, Florida
STATEMENTS OF NET ASSETS
As of September 30, 2005 and 2004
(amounts expressed in thousands)

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$65,612	$48,412
Investments		341
Restricted assets		
Cash and cash equivalents	12,799	21,277
Investments		21,874
Receivables (net):		
Accounts	4,856	2,605
Grants	3,894	20,112
Accrued interest		3
Due from other governments	2	2
Inventories	741	569
Other	2,140	1,273
Total current assets	90,044	116,468
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	19,246	
Investments	26,100	99,853
Receivables (net):		
Accounts	2,738	1,902
Grants		6,851
Accrued interest	65	4,339
Capital assets (net)	649,237	548,717
Intangible assets	1,875	126
Unamortized bond costs	4,798	5,075
Total noncurrent assets	704,059	666,863
Total assets	$794,103	$783,331

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2005 and 2004

(amounts expressed in thousands)

	2005	2004
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	$11,712	$8,402
Accrued liabilities	300	229
Refunds and rebates	2,927	3,308
Due to Board of County Commissioners	6	7
Due to other governments	193	223
Customer deposits	277	172
Deferred revenues	209	265
Compensated absences	601	492
Total current liabilities	16,225	13,098
Current liabilities payable from restricted assets:		
Contracts and accounts payable	12,569	32,706
Due to other governments		10,445
Notes payable	230	
Total current liabilities payable from restricted assets	12,799	43,151
Noncurrent liabilities:		
Compensated absences	297	241
Notes payable	3,140	483
Revenue bonds payable	389,713	396,556
Other	688	
Total noncurrent liabilities	393,838	397,280
Total liabilities	422,862	453,529
NET ASSETS		
Invested in capital assets, net of related debt	293,883	249,748
Restricted for:		
Capital Projects	12,274	10,626
Debt service	700	6,845
Renewal and Replacement	500	500
Unrestricted	63,884	62,083
Total Net Assets	$371,241	$329,802

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, 2005 and 2004

(amounts expressed in thousands)

	2005	2004
OPERATING REVENUES		
User fees	$31,499	$19,735
Rentals	3,392	2,970
Concessions	4,823	4,041
Parking Revenues	10,273	8,636
Rental Car Revenues	14,418	12,488
Miscellaneous	170	246
Total operating revenues	64,575	48,116
Less: Rebates	302	
Net operating revenues	64,273	48,116
OPERATING EXPENSES		
Salaries and wages	14,474	12,828
Employee benefits	5,201	4,490
Contractual services, materials and supplies	12,811	10,251
Utilities	2,659	2,330
Repairs and maintenance	1,200	1,199
Insurance	1,757	1,357
Other	1,554	2,045
Depreciation and amortization	9,983	13,716
Total operating expenses	49,639	48,216
Operating income	14,634	(100)
NON-OPERATING REVENUES (EXPENSES):		
Investment earnings	1,823	(37)
Interest expense	(4,408)	(4,496)
Grants	269	8
Gain (loss) on disposal of capital assets	6	(97)
Passenger facility charges	15,616	12,878
Other revenues	1,079	5
Other expenses	(14)	(43)
Total non-operating revenues (expenses)	14,371	8,218
Income before capital contributions	29,005	8,118
Capital contributions	12,434	51,713
Change in net assets	41,439	59,831
Total net assets- beginning	329,802	269,971
Total net assets - ending	$371,241	$329,802

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, 2005 and 2004

(amounts expressed in thousands)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$61,586	$45,999
Cash received (returned) from customer deposits	104	(52)
Other cash receipts	1,079	5
Payments to suppliers	(17,710)	(14,972)
Payments to employees	(19,469)	(15,600)
Payment for County services used		(1,972)
Net cash provided by operating activities	25,590	13,408
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	269	1
Net cash provided by noncapital financing activities	269	1
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	2,887	483
Capital contributions	35,503	41,618
Proceeds from passenger facilities charges	14,780	12,255
Additions to capital assets	(117,043)	(166,223)
Principal paid on bonds, loans, and leases	(7,500)	(6,876)
Interest paid on bonds, loans, and leases	(32,960)	(22,903)
Proceeds from sale of capital assets	14	16
Net cash used in capital and related financing activities	(104,319)	(141,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	95,712	103,065
Interest on investments	10,716	15,387
Net cash provided by investing activities	106,428	118,452
Net increase (decrease) in cash and cash equivalents	27,968	(9,769)
Cash and equivalents at beginning of year	69,689	79,458
Cash and equivalents at end of year	$97,657	$69,689
Classified as:		
Current assets	$65,612	$48,412
Restricted assets	32,045	21,277
Totals	$97,657	$69,689
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Decrease in fair value of investments	($763)	($1,508)

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, 2005 and 2004

(amounts expressed in thousands)

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$14,634	($100)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	9,983	13,716
Other revenues	1,079	5
(Increase) in accounts receivable	(2,251)	(592)
Decrease in due from other governments		1
(Increase) in inventories	(172)	(318)
(Increase) in other assets	(867)	(87)
Increase in contracts and accounts payable	3,310	3,529
Increase (decrease) in accrued liabilities	71	(233)
(Decrease) in refunds and rebates	(381)	(1,499)
(Decrease) in due to other governments	(30)	(54)
Increase in due to other funds		7
Increase (decrease) in customer deposits	105	(52)
Decrease in deferred revenues	(56)	(28)
Increase in compensated absences	165	66
Decrease in other liabilities		(953)
Total adjustments	10,956	13,508
Net cash provided by operating activities	$25,590	$13,408

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 Statement of Net Assets, 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 Statement of Revenues, Expenses, and Changes in Fund 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.

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.

Assets, Liabilities, and Net Assets

Cash and Cash Equivalents

The Port Authority considers cash and cash equivalents 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.

Investments

The Port Authority reports all investments at fair value, with the exception of debt investments held in an internal investment pool with a remaining maturity within ninety days of year-end, 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 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.

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 $1,000 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 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. Software, if material, is classified as an intangible asset and is amortized over its useful life.

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 Losses

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 loss over the shorter of the life of the old bond or the life of the new bond.

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 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. Invested in capital assets (net of related debt) excludes the portion of debt related to unspent bond proceeds. 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.

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

NOTE II. RECEIVABLES

At September 30, 2005 and 2004, accounts receivable consisted of the following (dollars in thousands):

		Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
2005	Unrestricted	$5,035	($179)	$4,856
	Restricted	2,738		2,738
	Total	$7,773	($179)	$7,594
2004	Unrestricted	$2,877	($272)	$2,605
	Restricted	1,902		1,902
	Total	$4,779	($272)	$4,507

NOTE III. CASH, CASH EQUIVALENTS AND INVESTMENTS

As of September 30, 2005, the Port Authority had the following deposits, investments and maturities (amounts in thousands):

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$50			N/A
Demand deposits	N/A	147			N/A
State Board of Administration Investment Pool	49 days	67,438			Unrated
Repurchase Agreement	10/2/2005	30,022			Unrated
Federal National Mortgage Corp	3/7/2007	26,100	12/7/2005	Quarterly	AAA
Total		$123,757			

Credit Risk

The Port Authority adheres to the Board of County Commissioners' (the Board) 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; U.S. Government sponsored Corporation/ Instrumentalities; U.S. Government Agencies; The Florida Local Government Surplus Funds Trust Fund (SBA); Interest-bearing time deposits or savings accounts in banks organized under the laws of this state, in national banks organized under the laws of the United States and doing business and situated in this state; 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 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 U.S. government sponsored corporation/ instrumentalities or U.S. government agencies; Bonds, notes or obligations of any state of the United States, any municipality, political subdivision, agency or authority of this state which are exempt from federal income taxation which are 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 U.S. 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 U.S. 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. The SBA is an investment pool not rated by a nationally recognized statistical rating agency. All credit ratings indicated in the above table are Standard & Poor's (S&P) ratings.

The Policy requires that collateral for overnight and term repurchase agreements must maintain a minimum price of 101 percent on U.S. 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. The SBA is an investment pool not rated by a nationally recognized statistical rating agency. All credit ratings indicated in the above 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, 2005, 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 in order to control concentration of credit risk. The Policy allows 100 percent of the portfolio to be invested in United States Treasuries/Agencies, 75 percent to be invested in SBA, 50 percent to be invested in repurchase agreements, 25 percent to be invested in mutual funds, and 20 percent to be invested in Certificate of Deposits or FLGIT. No more than 25 percent of the total portfolio can be invested with one Investment Company. The portion of the Port Authority's portfolio invested in Federal instrumentalities is detailed as follows, at September 30, 2005:

Issuer	Percent of Portfolio
Federal Home Loan Mortgage Corp.	21.01%

NOTE IV. CAPITAL ASSETS

Increases and decreases in capital asset activity include transfers. Capital asset activity for the fiscal years ended September 30, 2005 and 2004, was as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2005				
Capital assets not being depreciated:				
Land	$127,208			$127,208
Construction in progress	355,745	$111,419	($439,449)	27,715
Total capital assets not being depreciated	482,953	111,419	(439,449)	154,923
Capital assets being depreciated:				
Buildings	59,560	271,527	(21)	331,066
Improvements other than buildings	8,243	9,828		18,071
Machinery and equipment	16,095	11,781	(127)	27,749
Infrastructure	83,073	145,354		228,427
Total capital assets being depreciated	166,971	438,490	(148)	605,313
Less accumulated depreciation for:				
Buildings	37,342	4,878	(18)	42,202
Improvements other than buildings	4,940	721		5,661
Machinery and equipment	10,403	1,135	(123)	11,415
Infrastructure	48,522	3,199		51,721
Total accumulated depreciation	101,207	9,933	(141)	110,999
Total capital assets being depreciated, net	65,764	428,557	(7)	494,314
Fiscal Year 2005 capital assets, net	$548,717	$539,976	($439,456)	$649,237
Fiscal Year 2004				
Capital assets not being depreciated:				
Land	$127,208			$127,208
Construction in progress	183,961	$178,131	($6,347)	355,745
Total capital assets not being depreciated	311,169	178,131	(6,347)	482,953
Capital assets being depreciated:				
Buildings	57,583	4,703	(2,726)	59,560
Improvements other than buildings	7,150	1,095	(2)	8,243
Machinery and equipment	15,986	618	(509)	16,095
Infrastructure	79,720	3,353		83,073
Total capital assets being depreciated	160,439	9,769	(3,237)	166,971
Less accumulated depreciation for:				
Buildings	29,505	8,531	(694)	37,342
Improvements other than buildings	3,906	1,036	(2)	4,940
Machinery and equipment	9,696	1,159	(452)	10,403
Infrastructure	44,874	3,648		48,522
Total accumulated depreciation	87,981	14,374	(1,148)	101,207
Total capital assets being depreciated, net	72,458	(4,605)	(2,089)	65,764
Fiscal Year 2004 capital assets, net	$383,627	$173,526	($8,436)	$548,717

NOTE IV. 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, 2005 and September 30, 2004, was $14,665,000 and $8,975,000, 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, 2005, minimum future rentals of operating leases were as follows (dollars in thousands):

Fiscal Year(s)	Amount
2006	$17,248
2007	16,050
2008	15,117
2009	12,852
2010	12,820
Total minimum future revenue	$74,087

For the years ended September 30, 2005 and 2004, rental revenue included $7,259,000 and $5,198,000, respectively, in contingent rentals.

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

NOTE V. LONG-TERM DEBT

Revenue Bonds

Revenue bonds payable at September 30, 2005 and 2004, consisted of the following:

- 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, 2005 and 2004, was $38,255,000 and $40,345,000, 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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, was $30,440,000 and $35,850,000, respectively.

The total revenue bonds payable at September 30, 2005 and 2004, were $396,030,000 and $403,530,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2005, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2006		$11,184	$11,184
2007	$7,825	22,226	30,051
2008	8,105	21,901	30,006
2009	8,475	21,546	30,021
2010	8,820	21,184	30,004
2011-2015	60,830	98,534	159,364
2016-2020	67,405	81,732	149,137
2021-2025	70,375	63,325	133,700
2026-2030	93,540	40,863	134,403
2031-2035	70,655	11,101	81,756
Total	$396,030	$393,596	$789,626

The following is a summary of bond transactions of the Port Authority for the years ended September 30, 2005 and 2004 (dollars in thousands):

	2005	2004
Beginning balance	$403,530	$406,150
Reductions	(7,500)	(2,620)
Bonds payable at end of fiscal year	396,030	403,530
Less unamortized discount	(4,849)	(4,980)
Less unamortized accounting loss	(1,468)	(1,994)
Bonds payable at end of fiscal year, net	$389,713	$396,556

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

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, 2005 and 2004, consisted of the following (dollars in thousands):

	2005	2004
Airport Revenue Bonds, Series 1980	$14,420	$16,655
Airport Revenue Bonds, Series 1983	10,515	12,100
Total outstanding	$24,935	$28,755

Note Payable

The Port Authority 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, 2005 and 2004, was $0 and $0, respectively.

The following is a summary of note transactions of the Port Authority for the years ended September 30, 2005 and 2004 (dollars in thousands):

	2005	2004
Beginning balance	$0	$4,256
Additions		
Reductions		(4,256)
Note payable at end of fiscal year	$0	$0

Variable Debt

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) which was 4.52 percent as of September 30, 2005. Principal is payable semi-annually beginning June 1, 2006, and interest is payable monthly 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, 2005 and 2004, was $3,370,000 and $483,000, respectively.

The following is a summary of variable debt transactions of the Port Authority for the years ended September 30, 2005 and 2004 (dollars in thousands):

	2005	2004
Beginning balance	$483	
Additions	2,887	$483
Reductions		
Variable debt payable at end of fiscal year	$3,370	$483

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, 2005, were as follows (dollars in thousands):

Fiscal Year	Amount
2006	$501
2007	498
2008	408
2009	136
2010	136
Total minimum payments required	$1,679

The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2005 and 2004, were $258,000 and $107,000, respectively.

Compensated Absences

The following is a summary of compensated absences transactions for the Port Authority for the years ended September 30, 2005 and 2004 (dollars in thousands):

	2005	2004
Beginning balance	$733	$667
Additions	1,577	1,775
Reductions	(1,412)	(1,709)
Compensated absences payable at end of fiscal year	$898	$733

NOTE VI: 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 International Airport		Page Field General Aviation Airport	
	2005	2004	2005	2004
Condensed Statements of Net Assets				
Assets				
Current assets	$62,035	$59,314	$5,138	$2,168
Restricted assets	48,367	143,580	104	297
Capital assets	617,558	484,040	25,001	21,897
Other assets	6,410	4,895	32	35
Total assets	734,370	691,829	30,275	24,397
Liabilities				
Current liabilities	14,857	10,581	442	764
Current liabilities payable from restricted assets	11,254	35,989	1,416	303
Noncurrent liabilities	352,759	356,822	3,140	483
Total liabilities	378,870	403,392	4,998	1,550
Net assets				
Invested in capital assets, net of related debt	303,282	230,943	21,632	21,414
Restricted	2,363	8,408		
Unrestricted	49,855	49,086	3,645	1,433
Total net assets	$355,500	$288,437	$25,277	$22,847
Condensed Statements of Revenues, Expenses, and Changes in Net Assets				
Operating revenues				
User fees	$26,912	$15,780	$4,587	$3,955
Rentals	1,508	1,307	1,884	1,663
Concessions	29,441	25,108	73	57
Miscellaneous	169	244	1	2
Less: Rebates	(302)			
Total operating revenues	57,728	42,439	6,545	5,677
Operating expenses				
Depreciation	8,961	12,778	1,022	938
Other operating expenses	33,788	29,887	5,852	4,041
Total operating expenses	42,749	42,665	6,874	4,979
Operating income (loss)	14,979	(226)	(329)	698

NOTE VI: SEGMENT INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2005	2004	2005	2004
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (continued)				
Non-operating revenues (expenses)				
Investment earnings	1,160	(502)	92	11
Interest expense	(2,281)	(2,329)	(59)	
Other non-operating	639	(122)	701	(5)
Total non-operating revenues (expenses)	(482)	(2,953)	734	6
Income (loss) before capital contributions	14,497	(3,179)	405	704
Capital Contributions	7,262	49,404	1,948	1,860
Transfers	45,304	182	77	1,666
Change in net assets	67,063	46,407	2,430	4,230
Beginning net assets	288,437	242,030	22,847	18,617
Ending net assets	$355,500	$288,437	$25,277	$22,847
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$15,138	$11,458	$835	($147)
Noncapital financing activities	(473)	9	254	1,666
Capital and related financing activities	(93,459)	(110,112)	1,862	(1,382)
Investing activities	105,509	106,362	92	11
Net increase (decrease)	26,715	7,717	3,043	148
Beginning cash and cash equivalents	46,980	39,263	642	494
Ending cash and cash equivalents	$73,695	$46,980	$3,685	$642

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 ranged between 7 percent and 19 percent of gross salaries for fiscal years 2005 and 2004. For the fiscal years ended September 30, 2005, 2004, and 2003, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated $1.5 million, $1.3 million, and $1.1 million, respectively, which represents 10 percent, 10 percent, and 9 percent of covered payroll.

A copy of the FRS's annual report can be obtained by writing to the Division of Retirement, PO Box 9000, Tallahassee, Florida 32315 - 9000, 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, 2005 and 2004, the Port Authority was assessed $1,176,000 and $834,000, respectively. There were no additional assessments for fiscal years 2005 and 2004. 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, 2005 and 2004, the Port Authority was charged $2,424,000 and $2,027,000, 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. Insurance coverage for such losses is purchased from third - party carriers. For the fiscal years ended September 30, 2005 and 2004, the Port Authority paid $581,000 and $524,000, respectively, to third-party carriers. Settled claims have not exceeded insurance coverage in any of the past three years.

NOTE IX. COMMITMENTS AND CONTINGENCIES

At September 30, 2005 and 2004, the Port Authority had in process various construction contracts totaling $445,897,000 and $373,588,000, respectively. Costs on these contracts as of September 30, 2005 and 2004, totaled $389,945,000 and $283,566,000, respectively, including retainage payable of $11,223,000 and $18,108,000, 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) 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 $244,799,000 in passenger facility charges and interest. The funds are restricted for use on projects approved by the FAA. The funds are collected by the airlines when the tickets are sold and remitted to the Port Authority net of a collection fee, which was increased from eight cents ($.08) to eleven cents ($.11) per passenger facility charge on May 1, 2004. Amounts shown as revenue are net of the collection allowance.

On August 14, 2003, the FAA approved an amendment to the original application and increased the PFC collection from $3.00 to $4.50 per passenger, effective November 1, 2003. The total collection also increased from $244,799,000 to $260,837,000, with an estimated collection date of April 1, 2017.

NOTE XI. AIRLINE USE AGREEMENTS

Participating Airlines

The Port Authority currently has long - term leases and a participating use agreement (use agreement) with twelve 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.

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). A 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. A 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 $15,687,000 and $7,790,000, in fiscal years 2005 and 2004, respectively. These amounts are net of refunds and rebates, which were $2,625,000 and $302,000, respectively in fiscal year 2005, and $3,314,000 and $0, respectively in fiscal year 2004. Fees paid by Delta Airlines represented 6.4 percent and 5.5 percent of total airport revenues for fiscal years 2005 and 2004, 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.

Airline Bankruptcies

On September 15, 2005, Delta Airlines and Northwest Airlines filed for protection under bankruptcy laws. Other carriers under bankruptcy protection serving the Airport include American Trans Air, USAirways, and United Airlines. Because of the residual nature of the airline use agreement, there was no impact to the Airport's financial position.

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 for the Midfield Terminal Complex commenced in March 2002. The project includes a 750,000 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, and access roads including a two level terminal roadway system.

In March 2003, the Board of County Commissioners approved a $52 million budget increase for the Midfield Terminal project, which included changes for security as well as other changes deemed necessary by the Airlines and the Authority. The original design of the project was based on pre 9/11 security regulations. As a result of passenger and screening requirements mandated by the

Transportation Security Administration (TSA), modifications to the new terminal were necessary. These changes included the construction of a new 27,000 square foot in-line baggage system, the relocation and enlargement of passenger screening checkpoints, and the relocation of certain concession areas. The increase was funded by additional federal and state funding, passenger facility charges, and other available discretionary funds.

On September 9, 2005, the new Midfield Terminal opened and all operations in the old terminal ceased. The demolition contract of the old terminal has been awarded and the building will be demolished to allow for new commercial opportunities to increase airport revenues.

NOTE XIII. LITIGATION

The Port Authority is involved in ongoing litigation arising in the ordinary course of operations. It is of 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
Southwest Florida International Airport
PASSENGER FACILITY CHARGE REVENUE REPORT
For Fiscal Year Ending September 30, 2005
(unaudited)

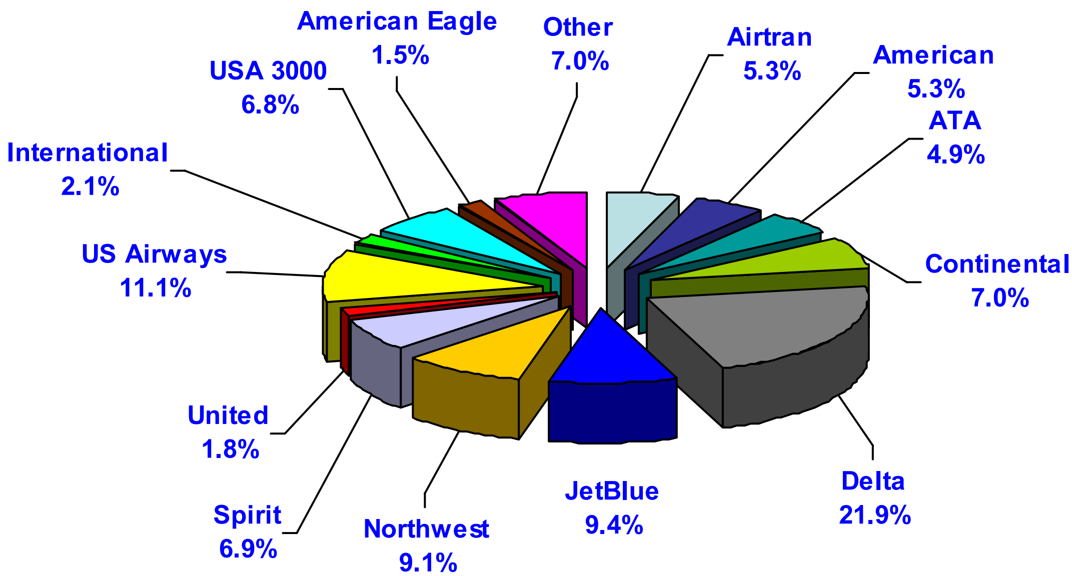
Total Enplaned Passengers	Eligible Enplaned Passengers	Net PFC Cash Collections	Interest Income	Total PFC Revenue
3,741,071	3,663,184	$14,788,707	$294,673	$15,083,380

Southwest Florida International Airport
ESTIMATED DEBT SERVICE COVERAGE
For Fiscal Year Ending September 30, 2005

Actual PFC Revenues	Actual 2005 PFC debt service requirements	Actual debt service factor
$15,083,380	$4,064,120	3.71

LEE COUNTY PORT AUTHORITY
Airline Market Share and Passenger Information
For the Fiscal Year Ended September 30, 2005
(unaudited)

Total passenger traffic is shown below for fiscal year 2005 showing market share for each airline at Southwest Florida International Airport.



Total Passenger by Airline compared to 2004

Airline	2005	2004	Change from 2004	% Change from 2004
Delta	1,627,634	1,701,956	(74,322)	-4.37%
Us Airways	821,758	809,461	12,297	1.52%
JetBlue	694,004	474,872	219,132	46.15%
Northwest	672,414	563,314	109,100	19.37%
Continental	517,353	522,814	(5,461)	-1.04%
Spirit	512,675	459,068	53,607	11.68%
USA 3000	502,228	147,855	354,373	239.68%
Airtran	396,842	364,367	32,475	8.91%
American	395,855	303,678	92,177	30.35%
ATA	360,042	371,624	(11,582)	-3.12%
International	156,751	142,095	14,656	10.31%
United	130,822	188,277	(57,455)	-30.52%
American Eagle	108,551	114,509	(5,958)	-5.20%
Other	522,653	330,612	192,041	58.09%
Total	7,419,582	6,494,502	925,080	14.24%

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