

# Lee County Port Authority

A Component Unit of Lee County, Florida



Component Unit Financial Report  
Fiscal Years Ended September 30, 2004 and 2003



# Lee County Port Authority

Lee County, Florida

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January 31, 2005

Dear Friends:

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

I am pleased to present the Lee County Port Authority's financial results for the fiscal year ending September 30, 2004.

**JAMES G. YAEGER**  
PORT AUTHORITY ATTORNEY

Southwest Florida International Airport enjoyed tremendous growth during the past year. Total passenger traffic was 6,494,502, an increase of 14% over the prior year. Total nonairline revenues were \$31.8 million, an increase of \$4.6 million over our budgeted projections. Total operating expenditures were within four percent of budgetary projections and were most influenced by additional working capital requirements and an increase in retirement benefits paid on behalf of our employees. Overall, I am happy to share that these factors have resulted in a cost per enplaned passenger of \$2.75 and a combined refund to our airline partners of \$3.4 million.

**BOARD OF  
PORT COMMISSIONERS**

**JOHN E. ALBION**

**ANDREW W. COY**

**BOB JAMES**

**RAY JUDAH**

Construction of the Midfield Terminal Complex remains on schedule. The \$438-million 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, access roads, including a two-level terminal roadway system, and other improvements. While the Airport sustained no significant damage from Florida's busy hurricane season, we are evaluating construction schedules carefully and expect the project to be completed in mid-2005.

**DOUGLAS R. ST. CERNY**

The Port Authority continues in its commitment to the revitalization of the Page Field General Aviation Airport. In the past year, Page Field enjoyed increases in fuel sales, as well as hangar and building rentals. These increases have enabled us to secure a \$10-million line of credit allowing us to implement projects that will further enhance our financial stability. Current and future projects include additional T-hangars, ramp expansion, infrastructure improvements and the design of a new general aviation terminal.

We are extremely pleased with the results of the past fiscal year and feel fortunate to have the support of our residents and business community for the continued growth and development of both Southwest Florida International Airport and Page Field General Aviation Airport.

Sincerely,

LEE COUNTY PORT AUTHORITY

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

RMB:BWM/amf

**SOUTHWEST FLORIDA INTERNATIONAL AIRPORT**  
16000 Chamberlin Parkway, Suite 8671 • Fort Myers, Florida 33913-8899  
<http://www.swfia.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, 2004 and 2003, 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 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, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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**

January 6, 2005

# 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, 2004 and 2003. 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 2004, 2003, and 2002.

Table 1  
Summary of Net Assets  
September 30, 2004, 2003 and 2002  
(000's)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current and other assets	\$234,614	\$339,896	\$374,583
Capital Assets	<u>548,717</u>	<u>383,627</u>	<u>277,605</u>
Total assets	783,331	723,523	652,188
Current liabilities	56,249	44,312	15,839
Non-current liabilities	<u>397,280</u>	<u>409,240</u>	<u>412,547</u>
Total liabilities	453,529	453,552	428,386
Net assets:			
Invested in capital assets, net of related debt	249,748	172,322	105,362
Restricted	17,971	56,670	82,258
Unrestricted	<u>62,083</u>	<u>40,979</u>	<u>36,182</u>
Total net assets	<u>\$329,802</u>	<u>\$269,971</u>	<u>\$223,802</u>

## *Summary of Net Assets Analysis*

Total assets increased by \$59,808,000 and \$71,335,000 in 2004 and 2003, respectively. These increases are primarily the result of the Midfield Terminal Complex construction which has increased construction in progress by \$165,000,000 and \$108,000,000 and decreased investments by \$103,000,000 and \$43,000,000 in 2004 and 2003, respectively.

In 2003, total liabilities increased \$25,166,000. This increase was a result of increased contracts and accounts payable associated with the Midfield Terminal Complex construction.

Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2004, 2003 and 2002.

Table 2  
 Summary of Revenues, Expenses, and Charges in Net Assets  
 For the Years Ended September 30, 2004, 2003 and 2002  
 (000's)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<i>Revenues:</i>			
User fees	\$19,735	\$17,605	\$14,830
Rental Cars	12,488	11,451	10,223
Parking	8,636	7,770	6,949
Other	<u>7,257</u>	<u>5,986</u>	<u>4,916</u>
Total revenues	<u>48,116</u>	<u>42,812</u>	<u>36,918</u>
<i>Expenses:</i>			
Salaries, wages and benefits	17,318	15,343	14,025
Contractual services, materials and supplies, repairs and maintenance, utilities	13,780	13,013	11,146
Other	<u>17,118</u>	<u>17,132</u>	<u>9,004</u>
Total expenses	<u>48,216</u>	<u>45,488</u>	<u>34,175</u>
Operating income (loss)	<u>(100)</u>	<u>(2,676)</u>	<u>2,743</u>
<i>Non-operating revenues (expenses):</i>			
Investment earnings	(37)	643	1,983
Interest expense	(4,496)	(4,690)	(4,943)
Passenger facility charges	12,878	7,930	6,488
Other revenues (expenses)	<u>(127)</u>	<u>14</u>	<u>189</u>
Total non-operating	<u>8,218</u>	<u>3,897</u>	<u>3,717</u>
Income before capital contributions	8,118	1,221	6,460
Capital contributions	<u>51,713</u>	<u>44,948</u>	<u>15,103</u>
Increase in net assets	59,831	46,169	21,563
Beginning net assets	<u>269,971</u>	<u>223,802</u>	<u>202,239</u>
Ending net assets	<u>\$329,802</u>	<u>\$269,971</u>	<u>\$223,802</u>

## *Summary of Revenues and Expenses Analysis*

User fees for 2004 were \$19,735,000, an increase of \$2,130,000. This was primarily due to increases of \$300,000 in landing fees collected, \$700,000 in fuel sales, \$400,000 in rental car facility charges, and \$400,000 in terminal usage fees. Total 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, a \$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.

Total income before capital contributions in 2003 was \$1,221,000, a decrease of \$5,239,000 from 2002. This can be attributed to an increase of \$5,900,000 in revenues, mainly in parking and rental car revenue and an increase of \$11,300,000 in expenses, primarily due to increased personnel costs and accelerated depreciation on the existing terminal which will be taken out of service in 2005.

## *Capital Assets*

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

Table 3  
Capital Assets  
September 30, 2004, 2003 and 2002  
(000's)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$127,208	\$127,208	\$119,085
Construction in progress	355,745	183,961	75,739
Building	59,560	57,583	57,508
Improvements	8,243	7,150	7,073
Equipment	16,095	15,986	15,201
Infrastructure	<u>83,073</u>	<u>79,720</u>	<u>77,062</u>
Subtotal	649,924	471,608	351,668
Less accumulated depreciation	<u>(101,207)</u>	<u>(87,981)</u>	<u>(74,063)</u>
Total	<u>\$548,717</u>	<u>\$383,627</u>	<u>\$277,605</u>

Capital assets increased by \$165,090,000 and \$106,022,000 in 2004 and 2003, respectively. Significant capital expenditures for 2004 included \$114,900,000 for the Midfield Terminal Complex and \$2,000,000 of various Page Field projects, including terminal building improvements and new hangars. Significant capital expenditures for 2003 included \$106,000,000 for the Midfield Terminal Complex and \$4,100,000 for various Page Field projects.

## *Debt Administration*

As of September 30, 2004, the Lee County Port Authority had \$404,013,000 in outstanding debt. This is a decrease of \$6,393,000 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, 2004 the total outstanding amount on this line was \$483,000.

Table 4  
Outstanding Debt  
September 30, 2004, 2003 and 2002  
(000's)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Series 2002 Airport Revenue Refunding Bond	\$35,850	\$36,465	\$37,065
Series 2002 Airport Revenue Refunding Note		4,256	8,400
2004 Line of Credit Note	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	<u>40,345</u>	<u>42,350</u>	<u>44,270</u>
Total	<u>\$404,013</u>	<u>\$410,406</u>	<u>\$417,070</u>

## *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 \$84,332,000 (including investment earnings). Expenditures during the same period on PFC approved projects and debt service costs totaled \$116,919,000.

## *Airport Activities*

Total passengers for fiscal year 2004 were 6.4 million, nearly a 14 percent increase over the prior year. According to the Air Transport Association, traffic nationally was up 3 percent for the same period. Below is a summary of increased airline service to Southwest Florida International Airport over the past year.

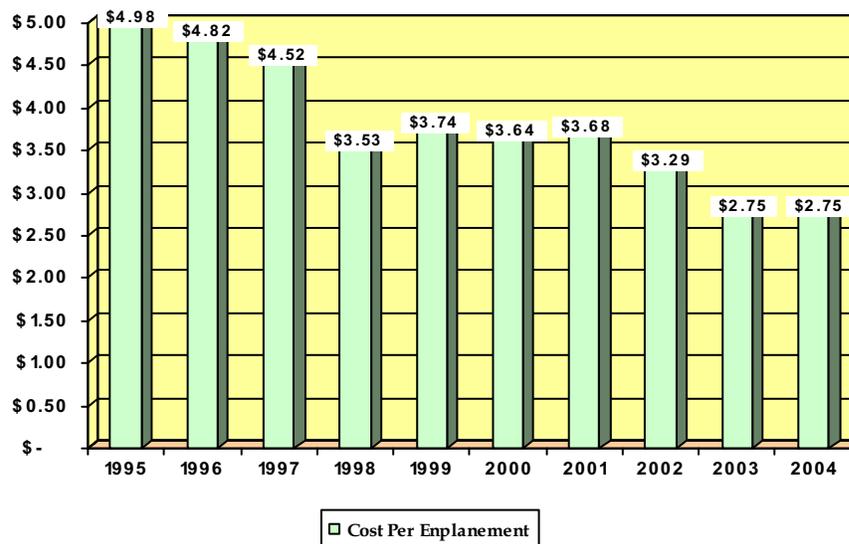
- ➔ LTU added a third weekly direct flight to Düsseldorf, Germany
- ➔ Jetsgo kept year round Toronto service for the first time in the airports history with weekly service throughout the summer. They currently operate four times a week Nov-May.

- ➔ Delta-Song started twice daily service to New York-JFK to compliment its three times daily service to Boston.
- ➔ Delta added a third daily (year round) flight to Cincinnati to compliment its nine times daily service to Atlanta, twice daily service to Columbus and three daily service to Orlando. Combined Delta and Song have a total of 21 daily flights.
- ➔ AirTran operated year round service to Reagan Washington-National and seasonal service to Philadelphia and Milwaukee to compliment its service to Atlanta and Baltimore for a total of seven flights a day.
- ➔ US Airways operated year round service to Reagan Washington-National to compliment its daily service to Charlotte, Philadelphia, and Pittsburgh for a total of 12 flights a day.
- ➔ USA 3000 began weekly service to Newark, Detroit, Milwaukee, Pittsburgh, and Philadelphia to complements its weekly service to Chicago, Cleveland, and Baltimore for a total of 40 flights per week.

### *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 2004. In fiscal year 2004, the Airlines collectively shared a refund of \$3,400,000.

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.



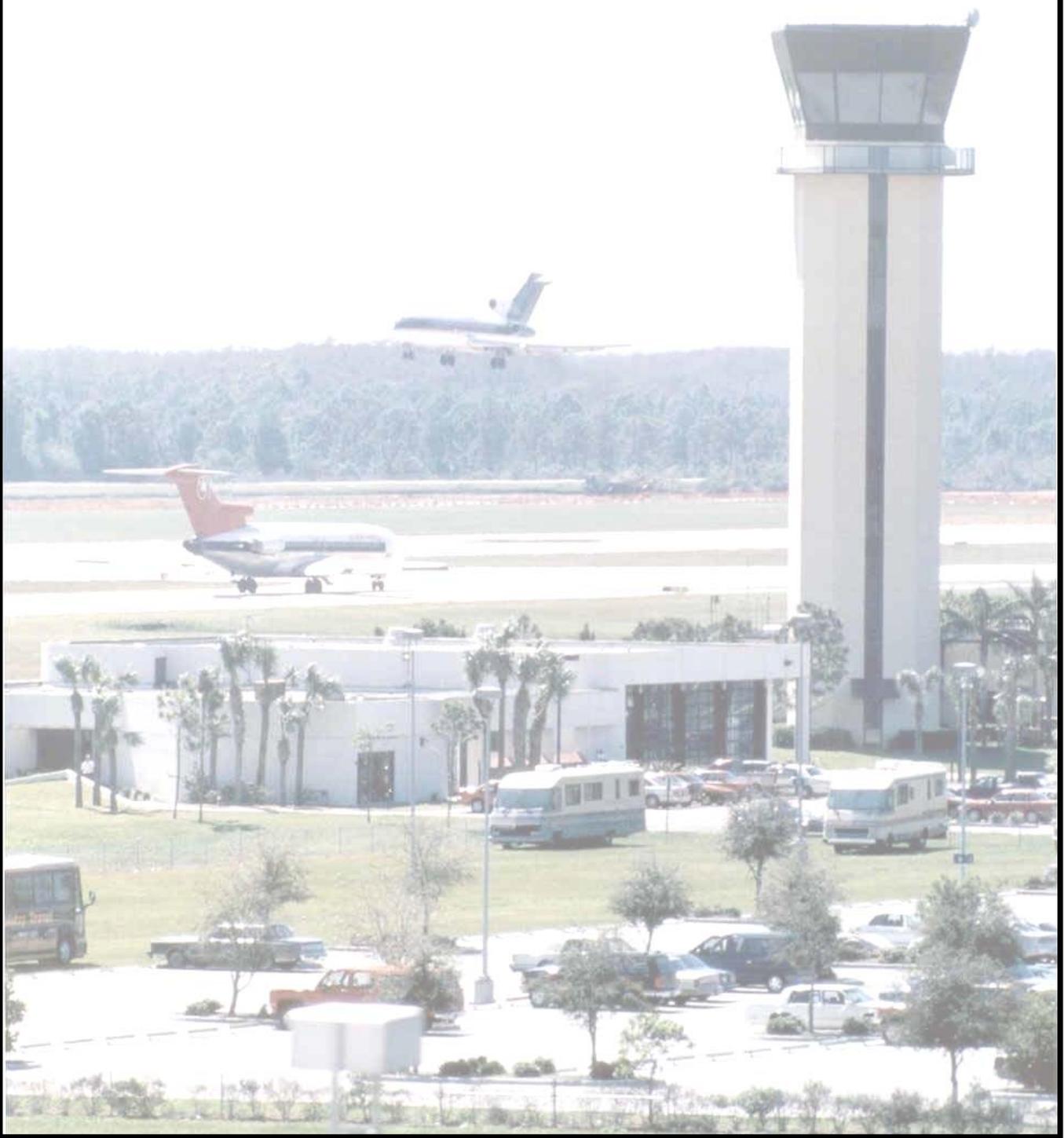
## ***Midfield Terminal Complex Update***

Construction for the Midfield Terminal Complex commenced in March 2002. The project, which includes 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, is expected to be completed in mid 2005. Total costs incurred to date for the project is \$305,700,000.

## ***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.

# Financial Statements



LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2004 and 2003

(amounts expressed in thousands)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$48,412	\$44,478
Investments	341	341
Restricted assets		
Cash and cash equivalents	21,277	32,983
Investments	21,874	
Receivables (net):		
Accounts	2,605	2,013
Grants	20,112	4,525
Accrued interest	3	3
Due from other governments	2	3
Inventories	569	251
Other	1,273	1,187
Total current assets	<u>116,468</u>	<u>85,784</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents		1,997
Investments	99,853	224,792
Receivables (net):		
Accounts	1,902	1,278
Grants	6,851	12,336
Accrued interest	4,339	8,138
Capital assets (net)	548,717	383,627
Intangible assets	126	225
Unamortized bond costs	5,075	5,346
Total noncurrent assets	<u>666,863</u>	<u>637,739</u>
Total assets	<u>\$783,331</u>	<u>\$723,523</u>

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2004 and 2003

(amounts expressed in thousands)

	<u>2004</u>	<u>2003</u>
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	\$8,402	\$4,873
Accrued liabilities	229	462
Refunds and rebates	3,308	4,807
Due to other funds	7	
Due to other governments	223	277
Customer deposits	172	224
Deferred revenues	265	293
Compensated absences	492	393
Total current liabilities	<u>13,098</u>	<u>11,329</u>
Current liabilities payable from restricted assets:		
Contracts and accounts payable	32,706	29,084
Due to other governments	10,445	
Notes payable		3,899
Total current liabilities payable from restricted assets	<u>43,151</u>	<u>32,983</u>
Noncurrent liabilities:		
Compensated absences	241	274
Notes payable	483	357
Revenue bonds payable	396,556	398,532
Other		10,077
Total noncurrent liabilities	<u>397,280</u>	<u>409,240</u>
Total liabilities	<u>453,529</u>	<u>453,552</u>
NET ASSETS		
Invested in capital assets, net of related debt	249,748	172,322
Restricted for:		
Capital Projects	10,626	29,403
Debt service	6,845	26,724
Renewal and Replacement	500	543
Unrestricted	62,083	40,979
Total Net Assets	<u>\$329,802</u>	<u>\$269,971</u>

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, 2004 and 2003

(amounts expressed in thousands)

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
User fees	\$19,735	\$17,605
Rentals	2,970	2,403
Concessions	4,041	3,533
Parking Revenues	8,636	7,770
Rental Car Revenues	12,488	11,451
Miscellaneous	246	530
Total operating revenues	<u>48,116</u>	<u>43,292</u>
Less: Rebates		480
Net operating revenues	<u>48,116</u>	<u>42,812</u>
OPERATING EXPENSES		
Salaries and wages	12,828	11,600
Employee benefits	4,490	3,743
Contractual services, materials and supplies	10,251	9,751
Utilities	2,330	2,072
Repairs and maintenance	1,199	1,190
Insurance	1,357	1,061
Other	2,045	2,012
Depreciation and amortization	13,716	14,059
Total operating expenses	<u>48,216</u>	<u>45,488</u>
Operating income	<u>(100)</u>	<u>(2,676)</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment earnings	(37)	643
Interest expense	(4,496)	(4,690)
Grants	8	36
Gain (loss) on disposal of capital assets	(97)	(32)
Passenger facility charges	12,878	7,930
Other revenues	5	18
Other expenses	(43)	(8)
Total non-operating revenues (expenses)	<u>8,218</u>	<u>3,897</u>
Income before capital contributions	8,118	1,221
Capital contributions	51,713	44,948
Change in net assets	<u>59,831</u>	<u>46,169</u>
Total net assets- beginning	<u>269,971</u>	<u>223,802</u>
Total net assets - ending	<u>\$329,802</u>	<u>\$269,971</u>

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

LEE COUNTY PORT AUTHORITY  
Lee County, Florida  
STATEMENTS OF CASH FLOWS  
For the Years Ended September 30, 2004 and 2003  
(amounts expressed in thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$45,999	\$45,206
Cash received (returned) from customer deposits	(52)	43
Other cash receipts	5	18
Payments to suppliers	(14,972)	(14,008)
Payments to employees	(15,600)	(13,412)
Payment for County services used	(1,972)	(1,667)
Net cash provided by operating activities	13,408	16,180
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	1	
Net cash provided by noncapital financing activities	1	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	483	
Capital contributions	41,618	33,740
Proceeds from passenger facilities charges	12,255	7,551
Additions to capital assets	(166,223)	(92,631)
Principal paid on bonds, loans, and leases	(6,876)	(6,664)
Interest paid on bonds, loans, and leases	(22,903)	(23,066)
Proceeds from sale of capital assets	16	2
Net cash used in capital and related financing activities	(141,630)	(81,068)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	103,065	58,953
Interest on investments	15,387	20,550
Net cash provided by investing activities	118,452	79,503
Net increase (decrease) in cash and cash equivalents	(9,769)	14,615
Cash and equivalents at beginning of year	79,458	64,843
Cash and equivalents at end of year	\$69,689	\$79,458
Classified as:		
Current assets	\$48,412	\$44,478
Restricted assets	21,277	34,980
Totals	\$69,689	\$79,458
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Decrease in fair value of investments	(\$1,508)	(\$939)

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, 2004 and 2003  
(amounts expressed in thousands)

	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	(\$100)	(\$2,676)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	13,716	14,059
Other revenues	5	18
Other expenses		(8)
(Increase) decrease in accounts receivable	(592)	438
Decrease in due from other governments	1	190
(Increase) decrease in inventories	(318)	9
(Increase) in other assets	(87)	(232)
Increase in contracts and accounts payable	3,529	1,348
(Decrease) in accrued liabilities	(233)	(84)
Increase (decrease) in refunds and rebates	(1,499)	1,734
Increase (decrease) in due to other governments	(54)	170
Increase in due to other funds	7	
Increase (decrease) in customer deposits	(52)	42
Increase (decrease) in deferred revenues	(28)	31
Increase in compensated absences	66	187
Increase (decrease) in other liabilities	(953)	954
Total adjustments	13,508	18,856
Net cash provided by operating activities	\$13,408	\$16,180

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

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004 and 2003

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

Lee County Port Authority  
Lee County, Florida  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2004 and 2003

Authority. The Statement of Revenues, Expenses, and Change in Net Assets reports increases (revenues) and decreases (expenses) in total economic net worth.

### *Basis of Accounting*

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

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, Cash Equivalents, and Investments*

The Port Authority shows all investments at fair value, with the exception of investments held in an internal investment pool with a remaining maturity within ninety days of year-end, 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 \$1,000 and \$100,000, respectively. Capital assets are recorded at cost, or estimated historical cost. Contributed assets are recorded at estimated

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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:

<u>Assets</u>	<u>Years</u>
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 costs.

*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 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. 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.

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NOTE II. CASH, CASH EQUIVALENTS,  
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 eligible collateral with the Treasurer as required pursuant to Chapter 280, Florida Statutes. 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, 2004 and 2003, the bank balances of the Port Authority's deposits were \$398,000 and \$214,000, 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 Chapter 218, Florida Statutes. Management believes there were no violations to this policy during the fiscal years ended September 30, 2004 and 2003.

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, 2004 and 2003, consisted of the following (dollars in thousands):

	<u>Fair Value</u>	
	<u>2004</u>	<u>2003</u>
U.S. Government Agencies and Instrumentalities	\$26,925	\$28,444
Overnight Repurchase Agreements	25,010	
Flexible Repurchase Agreement	<u>95,651</u>	<u>198,706</u>
Total	<u>\$147,586</u>	<u>\$227,150</u>

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):

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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. The Port Authority's investment in the SBA represented approximately 0.3 percent of the SBA's total investments.

The total of investments at September 30, 2004 and 2003 were as follows (dollars in thousands):

	<u>Fair Value</u>	
	<u>2004</u>	<u>2003</u>
Total of investments	<u>\$192,919</u>	<u>\$303,802</u>

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):

<u>Cash and Investments:</u>	<u>2004</u>	<u>2003</u>	<u>Cash and Investments per the Statements of Net Assets:</u>	<u>2004</u>	<u>2003</u>
Change funds and petty cash	\$22	\$22	Current:		
Cash on hand	89	553	Cash and cash equivalents	\$48,412	\$44,478
Carrying value of deposits	(1,273)	214	Investments	341	341
Investments previously disclosed	<u>192,919</u>	<u>303,802</u>	Restricted:		
Total cash and investments	<u>\$191,757</u>	<u>\$304,591</u>	Cash and cash equivalents	21,277	34,980
			Investments	<u>121,727</u>	<u>224,792</u>
			Total cash and investments	<u>\$191,757</u>	<u>\$304,591</u>

NOTE III. RECEIVABLES

At September 30, 2004 and 2003, accounts receivable consisted of the following (dollars in thousands):

		<u>Gross Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Accounts Receivable</u>
2004	Unrestricted	\$2,877	(\$272)	\$2,605
	Restricted	<u>1,902</u>		<u>1,902</u>
	Total	<u>\$4,779</u>	<u>(\$272)</u>	<u>\$4,507</u>
2003	Unrestricted	\$2,284	(\$271)	\$2,013
	Restricted	<u>1,278</u>		<u>1,278</u>
	Total	<u>\$3,562</u>	<u>(\$271)</u>	<u>\$3,291</u>

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NOTE IV. CAPITAL ASSETS

Capital asset activity for the fiscal years ended September 30, 2004 and 2003, was as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Fiscal Year 2004</i>				
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	<u>311,169</u>	<u>178,131</u>	<u>(6,347)</u>	<u>482,953</u>
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	<u>160,439</u>	<u>9,769</u>	<u>(3,237)</u>	<u>166,971</u>
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	<u>87,981</u>	<u>14,374</u>	<u>(1,148)</u>	<u>101,207</u>
Total capital assets being depreciated, net	<u>72,458</u>	<u>(4,605)</u>	<u>(2,089)</u>	<u>65,764</u>
Fiscal Year 2004 capital assets, net	<u><u>\$383,627</u></u>	<u><u>\$173,526</u></u>	<u><u>(\$8,436)</u></u>	<u><u>\$548,717</u></u>
<i>Fiscal Year 2003</i>				
Capital assets not being depreciated:				
Land	\$119,085	\$8,123		\$127,208
Construction in progress	75,739	119,522	(\$11,300)	183,961
Total capital assets not being depreciated	<u>194,824</u>	<u>127,645</u>	<u>(11,300)</u>	<u>311,169</u>
Capital assets being depreciated:				
Buildings	57,508	75		57,583
Improvements other than buildings	7,073	77		7,150
Machinery and equipment	15,201	934	(149)	15,986
Infrastructure	77,062	2,658		79,720
Total capital assets being depreciated	<u>156,844</u>	<u>3,744</u>	<u>(149)</u>	<u>160,439</u>
Less accumulated depreciation for:				
Buildings	21,114	8,391		29,505
Improvements other than buildings	2,865	1,041		3,906
Machinery and equipment	8,516	1,295	(115)	9,696
Infrastructure	41,568	3,306		44,874
Total accumulated depreciation	<u>74,063</u>	<u>14,033</u>	<u>(115)</u>	<u>87,981</u>
Total capital assets being depreciated, net	<u>82,781</u>	<u>(10,289)</u>	<u>(34)</u>	<u>72,458</u>
Fiscal Year 2003 capital assets, net	<u><u>\$277,605</u></u>	<u><u>\$117,356</u></u>	<u><u>(\$11,334)</u></u>	<u><u>\$383,627</u></u>

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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, 2004 and September 30, 2003, was \$8,975,000 and \$2,727,000, 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, 2004, minimum future rentals of operating leases were as follows (dollars in thousands):

<u>Fiscal Year(s)</u>	<u>Amount</u>
2005	\$14,298
2006	14,444
2007	13,777
2008	13,845
2009	<u>13,834</u>
Total minimum future revenue	<u>\$70,198</u>

For the years ended September 30, 2004 and 2003, rental revenue included \$5,198,000 and \$3,742,000, 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, 2004 and 2003, 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, 2004 and 2003, was \$40,345,000 and \$42,350,000, 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, 2004 and 2003, 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, 2004 and 2003, 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

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September 30, 2004 and 2003, was \$35,850,000 and \$36,465,000, respectively.

The total revenue bonds payable at September 30, 2004 and 2003, were \$403,530,000 and \$406,150,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2004, were as follows (dollars in thousands):

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005		\$11,347	\$11,347
2006	\$7,500	22,532	30,032
2007	7,825	22,226	30,051
2008	8,105	21,901	30,006
2009	8,475	21,546	30,021
2010-2014	41,250	101,210	142,460
2015-2019	62,230	85,393	147,623
2020-2024	59,390	67,081	126,471
2025-2029	78,745	45,955	124,700
2030-2034	<u>130,010</u>	<u>17,100</u>	<u>147,110</u>
Total	<u>\$403,530</u>	<u>\$416,291</u>	<u>\$819,821</u>

The following is a summary of bond transactions of the Port Authority for the years ended September 30, 2004 and 2003 (dollars in thousands):

	<u>2004</u>	<u>2003</u>
Beginning balance	\$406,150	\$408,670
Reductions	<u>(2,620)</u>	<u>(2,520)</u>
Bonds payable at end of fiscal year	403,530	406,150
Less unamortized discount	(4,980)	(5,111)
Less unamortized accounting loss	<u>(1,994)</u>	<u>(2,507)</u>
Bonds payable at end of fiscal year, net	<u>\$396,556</u>	<u>\$398,532</u>

### *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

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*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, 2004 and 2003, consisted of the following (dollars in thousands):

	<u>2004</u>	<u>2003</u>
Airport Revenue Bonds, Series 1980	\$16,655	\$18,715
Airport Revenue Bonds, Series 1983	<u>12,100</u>	<u>13,545</u>
Total outstanding	<u>\$28,755</u>	<u>\$32,260</u>

*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, 2004 and 2003, was \$0 and \$4,256,000, respectively.

The following is a summary of note transactions of the Port Authority for the years ended September 30, 2004 and 2003 (dollars in thousands):

	<u>2004</u>	<u>2003</u>
Beginning balance	\$4,256	\$8,400
Additions		
Reductions	<u>(4,256)</u>	<u>(4,144)</u>
Note payable at end of fiscal year	<u>\$0</u>	<u>\$4,256</u>

*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 2.12 percent as of September 30, 2004. 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, 2004 and 2003, was \$483,000 and \$0, respectively.

The following is a summary of variable debt transactions of the Port Authority for the years ended September 30, 2004 and 2003 (dollars in thousands):

	<u>2004</u>	<u>2003</u>
Beginning balance	-	-
Additions	\$483	
Reductions		
Variable debt payable at end of fiscal year	<u>\$483</u>	<u>\$0</u>

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*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, 2004, were as follows (dollars in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$89
2006	70
2007	70
2008	69
2009	<u>69</u>
Total minimum payments required	<u>\$367</u>

The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2004 and 2003, were \$107,000 and \$105,000, respectively.

*Compensated Absences*

The following is a summary of compensated absences transactions for the Port Authority for the years ended September 30, 2004 and 2003 (dollars in thousands):

	<u>2004</u>	<u>2003</u>
Beginning balance	\$667	\$480
Additions	1,775	1,360
Reductions	<u>(1,709)</u>	<u>(1,173)</u>
Compensated absences payable at end of fiscal year	<u>\$733</u>	<u>\$667</u>

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).

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NOTE VI: SEGMENT INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport
	2004	2003	2004
<i>Condensed Statements of Net Assets</i>			
<b>Assets</b>			
Current assets	\$59,314	\$38,684	\$2,168
Restricted assets	143,580	255,133	297
Capital assets	484,040	353,510	21,897
Other assets	4,895	5,217	35
Total assets	<u>691,829</u>	<u>652,544</u>	<u>24,397</u>
<b>Liabilities</b>			
Current liabilities	10,581	9,701	764
Current liabilities payable from restricted assets	35,989	33,492	303
Noncurrent liabilities	356,822	367,321	483
Total liabilities	<u>403,392</u>	<u>410,514</u>	<u>1,550</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	230,943	183,810	21,414
Restricted	8,408	30,278	
Unrestricted	49,086	27,942	1,433
Total net assets	<u>\$288,437</u>	<u>\$242,030</u>	<u>\$22,847</u>
<i>Condensed Statements of Revenues, Expenses, and Changes in Net Assets</i>			
<b>Operating revenues</b>			
User fees	\$15,780	\$14,450	\$3,955
Rentals	1,307	1,037	1,663
Concessions	25,108	22,716	57
Miscellaneous	244	530	2
Less: Rebates		(480)	
Total operating revenues	<u>42,439</u>	<u>38,253</u>	<u>5,677</u>
<b>Operating expenses</b>			
Depreciation	12,778	13,218	938
Other operating expenses	29,887	28,115	4,041
Total operating expenses	<u>42,665</u>	<u>41,333</u>	<u>4,979</u>
Operating income (loss)	<u>(226)</u>	<u>(3,080)</u>	<u>698</u>
<b>Non-operating revenues (expenses)</b>			
Investment earnings	(502)	12	11
Interest expense	(2,329)	(2,429)	
Other non-operating	(122)	15	(5)
Total non-operating revenues (expenses)	<u>(2,953)</u>	<u>(2,402)</u>	<u>6</u>
Capital Contributions	49,404	43,865	1,860
Transfers	182	8,121	1,666
Change in net assets	46,407	46,504	4,230
Beginning net assets	242,030	195,526	18,617
Ending net assets	<u>\$288,437</u>	<u>\$242,030</u>	<u>\$22,847</u>

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NOTE VI: SEGMENT INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport
	2004	2003	2004
<i>Condensed Statements of Cash Flows</i>			
Net cash provided (used) by:			
Operating activities	\$11,458	\$12,981	(\$147)
Noncapital financing activities	9	7,284	1,666
Capital and related financing activities	(110,112)	(67,027)	(1,382)
Investing activities	106,362	60,447	11
Net increase (decrease)	7,717	13,685	148
Beginning cash and cash equivalents	39,263	25,578	494
Ending cash and cash equivalents	\$46,980	\$39,263	\$642

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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 6 percent and 19 percent of gross salaries for fiscal years 2004 and 2003. For the fiscal years ended September 30, 2004, 2003, and 2002, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated \$1.3 million, \$1.1 million, and \$1.1 million, respectively, which represents 10 percent, 9 percent, and 10 percent of covered payroll.

A copy of the FRS's 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, 2004 and 2003, the Port Authority was assessed \$834,000 and \$684,000, respectively. There were no additional assessments for fiscal years 2004 and 2003. 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, 2004 and 2003, the Port Authority was charged \$2,027,000 and \$1,648,000, 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, 2004 and 2003, the Port Authority paid

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\$523,994 and \$377,264, 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, 2004 and 2003, the Port Authority had in process various construction contracts totaling \$373,588,000 and \$363,948,000, respectively. Costs on these contracts as of September 30, 2004 and 2003, totaled \$283,566,000 and \$131,039,000, respectively, including retainage payable of \$18,108,000 and \$8,411,000, 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 amount to \$10,445,000 and constitute a liability of the Port Authority, which are reported as due to other governments.

The Port Authority has agreed to reimburse certain concessionaires the unamortized cost of their leasehold improvements in the existing terminal upon the move to the Midfield

Terminal. As of September 30, 2004 this contingent liability amounted to \$1,426,000.

**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 ten 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

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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 project 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). 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 \$7,790,000 and \$7,406,000, in fiscal years 2004 and 2003, respectively. These amounts are net of refunds and rebates, which were \$3,314,000 and \$0, respectively in fiscal year 2004, and \$4,332,000 and \$480,000, respectively in fiscal year 2003. Fees paid by Delta Airlines represented 5.5

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September 30, 2004 and 2003

percent and 5.5 percent of total airport revenues for fiscal years 2004 and 2003, 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 for the Midfield Terminal Complex commenced in March 2002. The project, which 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, access roads including a two level terminal roadway system, and other

improvements, is expected to be complete by mid 2005.

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 is being funded by additional federal and state funding, passenger facility charges, and other available discretionary funds.

### 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 effect 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, 2004  
 (unaudited)

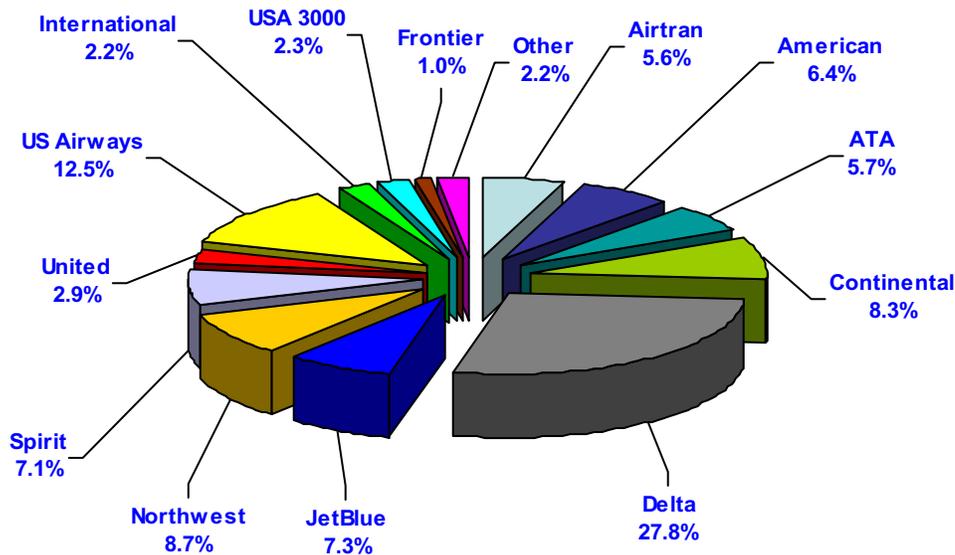
Total Enplaned Passengers	Eligible Enplaned Passengers	Net PFC Cash Collections	Interest Income	Total PFC Revenue
3,272,188	3,202,286	\$12,285,383	\$332,813	\$12,618,196

Southwest Florida International Airport  
**ESTIMATED DEBT SERVICE COVERAGE**  
 For Fiscal Year Ending September 30, 2004

Actual PFC Revenues	Actual 2004 PFC debt service requirements	Actual debt service factor
\$12,618,196	\$4,066,839	3.10

LEE COUNTY PORT AUTHORITY  
 Airline Market Share and Passenger Information  
 For the Fiscal Year Ended September 30, 2004  
 (unaudited)

Total passenger traffic is shown below for fiscal year 2004 showing market share for each airline at Southwest Florida International Airport.



**Total Passenger by Airline compared to 2003**

Airline	2004	2003	Change from 2003	% Change from 2003
Delta (1)	1,803,173	1,567,626	235,547	15.03%
Us Airways	809,461	705,999	103,462	14.65%
Northwest	563,314	469,709	93,605	19.93%
Continental (2)	537,527	511,999	25,528	4.99%
JetBlue	474,872	345,625	129,247	37.40%
Spirit	459,068	393,972	65,096	16.52%
American (3)	418,187	440,693	(22,506)	-5.11%
ATA	371,624	414,746	(43,122)	-10.40%
Airtran	364,367	277,866	86,501	31.13%
United	188,277	204,563	(16,286)	-7.96%
Other	149,259	157,137	(7,878)	-5.01%
USA 3000	147,855	51,836	96,019	185.24%
International (4)	142,095	116,434	25,661	22.04%
Frontier	65,423	47,627	17,796	37.37%
<b>Total</b>	<b>6,494,502</b>	<b>5,705,832</b>	<b>788,670</b>	<b>13.82%</b>

- (1) Delta includes Delta, Song, Comair and Chautauqua
- (2) Continental includes Continental and Continental Express
- (3) American includes American and American Eagle
- (4) International includes Air Canada, Condor, Jetsgo, and LTU