Lee County Board Of County Commissioners
Agenda Item Summary

Blue Sheet No. 20070386

1. ACTION REQUESTED/PURPOSE:
Presentation to the Board of County Commissioners the Lee County's Port Authority's financial statements for fiscal year 2006.

2. WHAT ACTION ACCOMPLISHES:
Provides public notice of the availability of the audited financial statements to the citizens of Lee County.

3. MANAGEMENT RECOMMENDATION:

4. Departmental Category: C15I	**5. Meeting Date:** March 27, 2007

6. Agenda:	**7. Requirement/Purpose:** *(specify)*	**8. Request Initiated:**
X **Consent**	**Statute**	**Commissioner**
Administrative	**Ordinance**	**Department** Clerk of Circuit Court
Appeals	**Admin. Code**	**Division** Finance & Records Department
Public	**Other**	**By:** **Donna G. Harn**
Walk-On		**Finance Director**

9. Background:

The Port Authority's financial statements for the fiscal year ended September 30, 2006, were prepared by the Clerk's Finance & Records Department, General Accounting Office, and audited by KPMG LLP. Copies of the report are available in the Finance & Records Department on the 3rd floor of the Administration Building.

10. Review for Scheduling:

Department Director	Purchasing or Contracts	Human Resources	Other	County Attorney	Budget Services: Analyst	Risk	Grants	Mgr.	County Manager/P.W. Director
dg				[signature] 3/12/07	3/14/07	MP 3/14/07	3/14/07	3/14	[signature]

11. Commission Action:
_____Approved
_____Deferred
_____Denied
_____Other

Rec. by CoAtty
Date: 3/12/07
Time: 4:25pm
Forwarded To: Budget
3/13/07 8:35AM

RECEIVED BY COUNTY ADMIN: TD
3-13-07
9:56 AM
COUNTY ADMIN FORWARDED TO: PC
3/15
9AM

Lee County Port Authority

A Component Unit of Lee County, Florida

Component Unit Financial Report

Fiscal Years Ended September 30, 2006 and 2005

Lee County Port Authority

Financial Statements

Years Ended September 30, 2006 and 2005

Lee County Port Authority

Southwest Florida International Airport

Lee County Port Authority

Lee County, Florida

Table of Contents

This page intentionally left blank.

LEE COUNTY PORT AUTHORITY

Direct Dial (239) 590-4400
Fax (239) 590-4533

January 29, 2007

Dear Friends:

I am pleased to present the Lee County Port Authority's financial results for the fiscal year ending September 30, 2006.

Fiscal year 2006 was another record-breaking year at Southwest Florida International Airport. Total passenger numbers were 7,553,025, an increase of 1.80%, or 133,443 passengers over the prior year. According to the Air Transport Association, nationwide domestic passenger traffic for the same period was down by 2.3%. Total operating revenues were $81.8 million, an increase over the prior year of $17.6 million. Increases in this category were related to rental cars, public parking, and terminal concessions. Operating expenses before depreciation were $53.9 million, an increase of $14.2 million for the same period. Increases in this category were primarily attributed to overtime, benefits, property insurance, janitorial services, and parking lot management. These factors have resulted in a combined refund to our airline partners of $318,402, and a net cost per enplaned passenger of $7.29.

This past fiscal year was the first full year of operation in our new terminal. The year was somewhat challenging from a budget perspective, so we closely monitored the budgeted expenses and realized that certain categories were exceeding our original projections, in particular, utility and janitorial expenses. As a result, the Board of Port Commissioners approved a $2.2 million budget amendment in May 2006. Simultaneously, though, our nonairline revenues were exceeding our budgeted projections; therefore, no midyear adjustments to the rates were required.

Turning the focus toward General Aviation, the Port Authority remains committed to the success of Page Field. The $10 million line of credit secured in 2004 to fund various projects has been fully drawn. This money helped fund the construction of sixty-eight new T-hangars bringing the total to 189, the replacement of the roof on the terminal building, and the design of other various projects. Other news includes Page Field Medical Village, which has completed its final construction phase, and the ongoing design of the new General Aviation Terminal.

We are extremely pleased with the results of the past fiscal year. During this new year, we look forward to continuing to serve the customers at the Southwest Florida International Airport and Page Field General Aviation Airport.

Sincerely,

LEE COUNTY PORT AUTHORITY

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

RMB:PJD/dab
Enclosure

SOUTHWEST FLORIDA INTERNATIONAL AIRPORT
11000 Terminal Access Road, Suite 8671 Fort Myers, Florida 33913-8899
www.flylcpa.com

KPMG

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

Independent Auditors' Report

The Board of Port Commissioners
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, 2006 and 2005, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, 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 U.S. generally accepted accounting principles. 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 letter of transmittal and the supplemental schedules are presented for purposes of additional analysis and are 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 21, 2006
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 (Port) financial statements for fiscal years ending September 30, 2006 and 2005. 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 2006, 2005, and 2004.

Table 1
Summary of Net Assets
September 30, 2006, 2005 and 2004
(000's)

	2006	2005	2004
Current and other assets	$144,755	$144,865	$234,614
Capital Assets	682,416	649,238	548,717
Total assets	827,171	794,103	783,331
Current liabilities	23,055	29,025	56,249
Non-current liabilities	392,778	393,838	397,280
Total liabilities	415,833	422,863	453,529
Net assets:			
Invested in capital assets, net of related debt	327,225	293,883	249,748
Restricted	16,945	13,473	17,971
Unrestricted	67,168	63,884	62,083
Total net assets	$411,338	$371,240	$329,802

Summary of Net Assets Analysis

In 2006, total assets increased $33,068,000. This increase was primarily due to an increase in receivables of $4,029,000, a decrease in cash and investments of $2,155,000, a decrease in prepaid insurance of $1,643,000, and a net increase in capital assets of $33,178,000. In 2006, total liabilities decreased $7,030,000. This decrease was primarily due to a decrease in contracts and accounts payable of $6,380,000.

In 2005, total current and other assets, and current liabilities decreased $89,749,000 and $27,224,000, 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.

Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2006, 2005 and 2004.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2006, 2005 and 2004
(000's)

	2006	2005	2004
Revenues, net:			
User fees	$43,900	$31,499	$19,735
Rental cars	16,114	14,418	12,488
Parking	13,819	10,273	8,636
Other, net	8,000	8,083	7,257
Total revenues, net	81,833	64,273	48,116
Expenses:			
Salaries, wages and benefits	22,808	19,675	17,318
Contractual services, materials and supplies, repairs and maintenance, utilities	26,402	16,670	13,780
Depreciation and amortization	16,334	9,983	13,716
Other	4,749	3,311	3,402
Total expenses	70,293	49,639	48,216
Operating income (loss)	11,540	14,634	(100)
Non-operating revenues (expenses):			
Investment earnings	5,919	1,823	(37)
Interest expense	(23,127)	(4,408)	(4,496)
Passenger facility charges	15,567	15,616	12,878
Other revenues (expenses)	4,840	1,340	(127)
Total non-operating	3,199	14,371	8,218
Income before capital contributions	14,739	29,004	8,118
Capital contributions	25,359	12,434	51,713
Increase in net assets	40,098	41,439	59,831
Beginning net assets	371,240	329,802	269,971
Ending net assets	$411,338	$371,241	$329,802

Summary of Revenues and Expenses Analysis

In 2006, income before capital contributions was $14,739,000, a decrease of $14,265,000. This was due, in part, to an increase of $12,401,000 in user fees consisting of a $9,844,000 in tenant rent due to the first full year in the new terminal at Southwest Florida International Airport (SWFIA). Other increases in user fees included a $1,299,000 increase in landing fees, a $1,132,000 increase in fuel sales, a $1,696,000 increase in rental cars, and a $3,546,000 increase in parking revenues. Operating expenses also increased in 2006 by $20,654,000 including a $3,133,000 increase in personnel, a $6,407,000 increase in contract management and material and supplies, a $2,292,000 increase in utilities, a $1,033,000 increase in repair and maintenance items, and a $6,351,000 increase in deprecation due to the capitalization of the new terminal. In addition, net income decreased due to an increase in interest expense of $18,719,000 in comparison to prior year. In 2005, interest expense was capitalized as part of the cost of the new terminal, which was completed in September 2005.

In 2005, income before capital contributions was $29,004,000, 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 $1,467,000. 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.

Capital Assets

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

Table 3
Capital Assets
September 30, 2006, 2005 and 2004
(000's)

	2006	2005	2004
Land	$127,208	$127,208	$127,208
Construction in progress	47,209	27,716	355,745
Building	350,031	331,066	59,560
Improvements	18,788	18,071	8,243
Equipment	29,245	27,749	16,095
Infrastructure	236,646	228,427	83,073
Subtotal	809,127	760,236	649,924
Less accumulated depreciation	(126,711)	(110,999)	(101,207)
Total	$682,416	$649,238	$548,717

Capital assets increased by $33,178,000 and $100,521,000 in 2006 and 2005, respectively. Significant capital expenses for 2006 included $25,100,000 in terminal expenditures and $16,400,000 in runway rehabilitation expenses. Significant capital expenses 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.

Debt Administration

As of September 30, 2006, the Port had $399,570,000 in outstanding debt, a slight increase of $170,000. In July 2005, 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, 2006, the total outstanding amount on this line was $9,770,000. Also, in January 2006, the Airport advance refunded the Series 2000B, Airport Revenue Bonds. The principal amount owed on the new bonds as of September 20, 2006, was $37,775,000.

Table 4
Outstanding Debt
September 30, 2006, 2005 and 2004
(000's)

	2006	2005	2004
Series 2002 Airport Revenue Refunding Bond	$24,800	$30,440	$35,850
Series 2005 Airport Revenue Refunding	37,775	0	0
2004 Line of Credit Note	9,770	3,370	483
Series 2000A Airport Revenue Bonds	291,155	291,155	291,155
Series 2000B Airport Revenue Bonds	0	36,180	36,180
Series 1998 Passenger Facility Bonds	36,070	38,255	40,345
Total	$399,570	$399,400	$404,013

Passenger Facility Charges

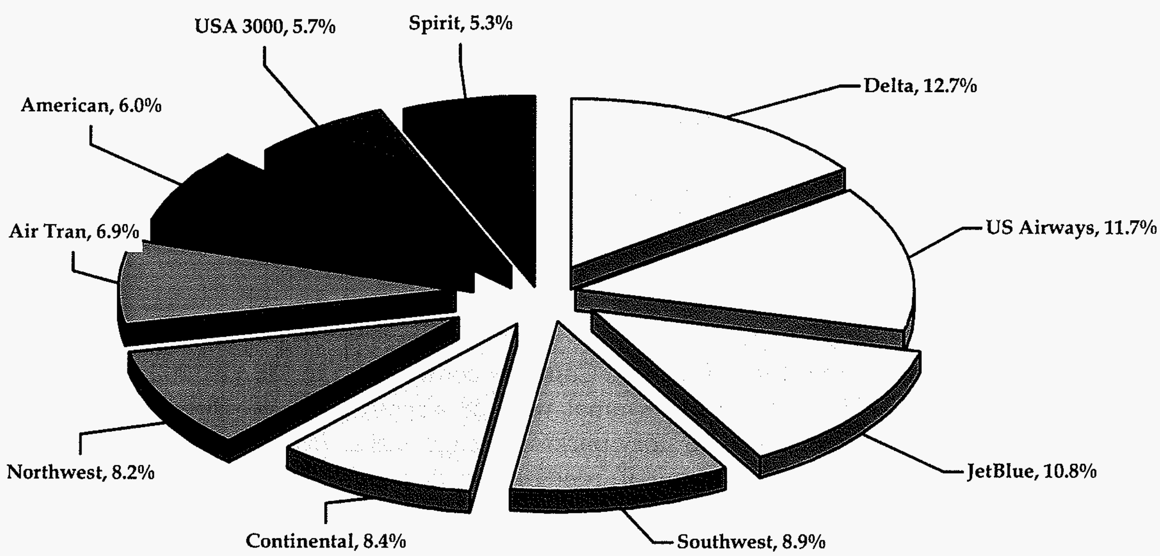
In November 1992, the Port received approval from the Federal Aviation Administration to impose a Passenger Facility Charge (PFC) of $3.00 per eligible enplaned passenger. In 1998, the Port issued PFC Revenue Bonds for $52,225,000 to fund eligible capital improvements and land acquisition. In November 2003, the Port was granted authority to raise the PFC level from $3.00 to $4.50. In November 2005, the Port's PFC application was approved to apply $7,000,000 in PFC's toward the runway rehabilitation project. In addition, on April 18, 2006, the FAA approved an amendment to a previously approved application. This amendment was $25,676,000 for additional modifications to the Midfield Terminal. At the same time the total collection authority was changed to $246,663,000 with an estimated collection date of February 2015.

Airport Activities

THe total passenger count for fiscal year 2006 was 7,553,025, a slight increase of nearly two percent over the prior year. According to the Air Transport Association, traffic nationally was down 2.3 percent for the same period. Below is a summary of increased airline service to Southwest Florida International Airport over the past year.

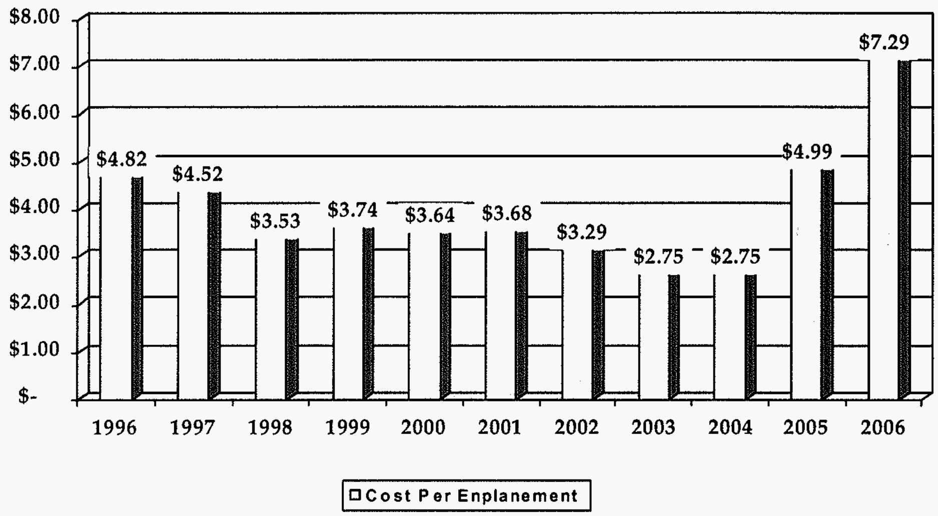
- Southwest Airlines started service in October 2005, with nine daily flights to Orlando, Philadelphia, Chicago-Midway, Baltimore, and Islip.
- Westjet started weekly service to Toronto.
- AirTran started nonstop service to Indianapolis, Flint, Akron, and Richmond.
- Northwest started nonstop service to Flint.
- JetBlue started nonstop service to Newark.

The following chart exhibits the Total Passenger Market Share for the Top Ten Airlines operating at Southwest Florida International Airport during Fiscal Year 2006.



Airline Rates and Charges

In 1998, the Port amended its *Airport Use Agreement* (the 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 Port 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 2006. In fiscal year 2006, the Airlines collectively shared a refund of $318,000. In addition, the Airlines collectively received $2,031,000, 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 2006, the cost per enplanement increased due to an increase in debt service and the first full year of operations of 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, 2006, the new Midfield Terminal opened and all operations in the old terminal ceased. In fiscal year 2006, the former terminal was demolished and it now being marketed for future development.

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, 2006 and 2005

(amounts expressed in thousands)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$67,384	$65,612
Investments	163	
Restricted assets		
Cash and cash equivalents	4,485	12,799
Receivables (net):		
Accounts	5,484	4,856
Grants	7,809	3,894
Due from other governments	2	2
Inventories	704	741
Other	498	2,140
Total current assets	86,529	90,044
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	22,670	18,990
Investments	26,900	26,356
Receivables (net):		
Accounts	2,222	2,738
Accrued interest	65	65
Capital assets (net)	682,416	649,237
Intangible assets	1,651	1,875
Unamortized bond costs	4,718	4,798
Total noncurrent assets	740,642	704,059
Total assets	$827,171	$794,103

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2006 and 2005

(amounts expressed in thousands)

	2006	2005
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	$13,954	$11,712
Accrued liabilities	346	300
Refunds and rebates	2,350	2,927
Due to Board of County Commissioners	6	6
Due to other governments	235	193
Customer deposits	559	277
Deferred revenues	557	209
Compensated absences	563	601
Total current liabilities	18,570	16,225
Current liabilities payable from restricted assets:		
Contracts and accounts payable	3,947	12,569
Due to other governments	63	
Notes payable	475	230
Total current liabilities payable from restricted assets	4,485	12,799
Noncurrent liabilities:		
Compensated absences	266	297
Notes payable	9,295	3,140
Revenue bonds payable	382,614	389,713
Other	603	688
Total noncurrent liabilities	392,778	393,838
Total liabilities	415,833	422,862
NET ASSETS		
Invested in capital assets, net of related debt	327,225	293,883
Restricted for:		
Capital Projects	15,733	12,274
Debt service	712	700
Renewal and Replacement	500	500
Unrestricted	67,168	63,884
Total Net Assets	$411,338	$371,241

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, 2006 and 2005

(amounts expressed in thousands)

	2006	2005
OPERATING REVENUES		
User fees	$43,900	$31,499
Rentals	3,734	3,392
Concessions	6,069	4,823
Parking Revenues	13,819	10,273
Rental Car Revenues	16,114	14,418
Miscellaneous	228	170
Total operating revenues	83,864	64,575
Less: Rebates	(2,031)	(302)
Net operating revenues	81,833	64,273
OPERATING EXPENSES		
Salaries and wages	16,402	14,474
Employee benefits	6,406	5,201
Contractual services, materials and supplies	19,218	12,811
Utilities	4,951	2,659
Repairs and maintenance	2,233	1,200
Insurance	2,134	1,757
Other	2,615	1,554
Depreciation and amortization	16,334	9,983
Total operating expenses	70,293	49,639
Operating income	11,540	14,634
NON-OPERATING REVENUES (EXPENSES):		
Investment earnings	5,919	1,823
Interest expense	(23,127)	(4,408)
Grants		269
Gain (loss) on disposal of capital assets	682	6
Passenger facility charges	15,567	15,616
Other revenues	4,172	1,079
Other expenses	(14)	(14)
Total non-operating revenues (expenses)	3,199	14,371
Income before capital contributions	14,739	29,005
Capital contributions	25,359	12,434
Change in net assets	40,098	41,439
Total net assets- beginning	371,240	329,802
Total net assets - ending	$411,338	$371,241

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, 2006 and 2005
(amounts expressed in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$80,974	$61,586
Cash received from customer deposits	282	104
Other cash receipts	4,783	1,079
Payments to suppliers	(27,168)	(17,710)
Payments to employees	(22,787)	(19,469)
Net cash provided by operating activities	36,084	25,590
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received		269
Net cash provided by noncapital financing activities	0	269
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	45,426	2,887
Capital contributions	21,444	35,503
Proceeds from passenger facilities charges	16,084	14,780
Additions to capital assets	(58,358)	(117,043)
Principal paid on bonds, loans, and leases	(8,085)	(7,500)
Interest paid on bonds, loans, and leases	(21,983)	(32,960)
Transfer to Refunding Escrow Agent	(38,682)	
Proceeds from sale of capital assets	74	14
Net cash used in capital and related financing activities	(44,080)	(104,319)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	695	95,712
Purchase of investments	(1,403)	
Interest on investments	5,842	10,460
Net cash provided by investing activities	5,134	106,172
Net (decrease) increase in cash and cash equivalents	(2,862)	27,712
Cash and equivalents at beginning of year	97,401	69,689
Cash and equivalents at end of year	$94,539	$97,401
Classified as:		
Current assets	$67,384	$65,612
Restricted assets	27,155	31,789
Totals	$94,539	$97,401
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	$74	($763)

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, 2006 and 2005

(amounts expressed in thousands)

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$11,540	$14,634
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	16,334	9,983
Other revenues	4,783	1,079
Increase in accounts receivable	(628)	(2,250)
Decrease (increase) in inventories	37	(172)
Decrease (increase) in other assets	1,642	(867)
Increase in contracts and accounts payable	2,242	3,310
Increase in accrued liabilities	46	71
Decrease in refunds and rebates	(577)	(381)
Increase (decrease) in due to other governments	107	(30)
Decrease in due to other funds	(1)	
Increase in customer deposits	281	104
Increase (decrease) in deferred revenues	347	(56)
(Decrease) increase in compensated absences	(69)	165
Total adjustments	24,544	10,956
Net cash provided by operating activities	$36,084	$25,590

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 maturity within ninety days of purchase, repurchase agreements, and Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration (SBA)). All fair valuations are based on quoted market prices. The investment pool and repurchase agreements are stated at amortized cost, which approximates fair value. The fair value of the position in the Local Government Surplus Funds Investment Pool Trust Fund, an external 2a7-like investment pool, is the same as the value of the pool shares.

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 Gains or Losses

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

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.

Reclassifications

Certain fiscal year 2004 and 2005 balances have been reclassified to conform to fiscal year 2006 presentation; there is no net financial statement effect.

NOTE II. RECEIVABLES

At September 30, 2006 and 2005, accounts receivable consisted of the following (dollars in thousands):

		Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
2006	Unrestricted	$5,733	($249)	$5,484
	Restricted	2,222		2,222
	Total	$7,955	($249)	$7,706
2005	Unrestricted	$5,035	($179)	$4,856
	Restricted	2,738		2,738
	Total	$7,773	($179)	$7,594

NOTE III. CASH, CASH EQUIVALENTS AND INVESTMENTS

As of September 30, 2006 and 2005, the Port Authority had the following deposits, investments, and maturities (amounts in thousands):

2006

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$270			N/A
Demand deposits	N/A	446			N/A
State Board of Administration Investment Pool	32 days	94,002			Unrated
U.S. Treasury Bill	10/26/2006	708			N/A
Federal National Mortgage Association	3/7/2007	26,013	12/7/2006	Quarterly	AAA
Federal National Mortgage Association	3/7/2007	163	12/7/2006	Quarterly	AAA
Total		$121,602			

2005

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 Association	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 Florida, in national banks organized under the laws of the United States and doing business and situated in Florida; Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided their portfolio is limited to United States Government obligations and 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 Florida 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 previous table are Standard & Poor's (S&P) ratings.

Custodial Credit Risk

The Policy requires that bank deposits be secured as provided by Chapter 280, *Florida Statutes,* and that the banks must be fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) and approved by the State Treasurer as a public depository. At September 30, 2006, all of the Port Authority's bank deposits were in qualified public depositories.

Interest Rate Risk

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

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition for the County in whole in order to control concentration of credit risk. The Policy allows 100 percent of the portfolio to be invested in United States Treasuries/Agencies, 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 County's total investment portfolio at September 30, 2006 and 2005, was $1,535,234,000 and $1,418,162,000, respectively. The portion of the Port Authority's portfolio invested in Federal instrumentalities is detailed as follows, at September 30, 2006 and 2005:

2006

Issuer	Percent of Total Portfolio
Federal National Mortgage Association	1.90%

2005

Issuer	Percent of Total Portfolio
Federal National Mortgage Association	2.04%

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

2006

Current:	
Cash and cash equivalents	$67,384
Investments	163
Restricted:	
Cash and cash equivalents	27,155
Investments	26,900
Total	$121,602

2005

Current:	
Cash and cash equivalents	$65,612
Restricted:	
Cash and cash equivalents	31,789
Investments	26,356
Total	$123,757

NOTE IV. CAPITAL ASSETS

Increases and decreases in capital asset activity include transfers. Capital asset activity for the fiscal years ended September 30, 2006 and 2005, was as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2006				
Capital assets not being depreciated:				
Land	$127,208			$127,208
Construction in progress	27,716	$48,613	($29,120)	47,209
Total capital assets not being depreciated	$154,924	48,613	(29,120)	174,417
Capital assets being depreciated:				
Buildings	331,066	18,965		350,031
Improvements other than buildings	18,071	717		18,788
Machinery and equipment	27,749	1,691	(195)	29,245
Infrastructure	228,427	8,219		236,646
Total capital assets being depreciated	605,313	29,592	(195)	634,710
Less accumulated depreciation for:				
Buildings	42,202	6,435		48,637
Improvements other than buildings	5,661	965	(76)	6,550
Machinery and equipment	11,416	1,923	(190)	13,149
Infrastructure	51,720	6,656	(1)	58,375
Total accumulated depreciation	110,999	15,979	(267)	126,711
Total capital assets being depreciated, net	494,314	13,613	72	507,999
Capital assets, net	$649,238	$62,226	($29,048)	$682,416

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2005				
Capital assets not being depreciated:				
Land	$127,208			$127,208
Construction in progress	355,745	$111,420	($439,449)	27,716
Total capital assets not being depreciated	482,953	111,420	(439,449)	154,924
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	1,136	(123)	11,416
Infrastructure	48,522	3,198		51,720
Total accumulated depreciation	101,207	9,933	(141)	110,999
Total capital assets being depreciated, net	65,764	428,557	(7)	494,314
Capital assets, net	$548,717	$539,977	($439,456)	$649,238

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, 2006 and September 30, 2005, was $326,000 and $14,665,000, 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, 2006, minimum future rentals of operating leases were as follows (dollars in thousands):

Fiscal Year(s)	Amount
2007	$21,531
2008	21,071
2009	20,010
2010	19,772
2011	15,064
Total minimum future revenue	$97,448

For the years ended September 30, 2006 and 2005, rental revenue included $6,758,000 and $7,259,000, 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, 2006 and 2005, 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, 2006 and 2005, was $36,070,000 and $38,255,000, 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 Southwest Florida International Airport (SWFIA). The outstanding balance at September 30, 2006 and 2005, 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 SWFIA. The outstanding balance at September 30, 2006 and 2005, was $0 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 SWIA. The outstanding balance at September 30, 2006 and 2005, was $24,800,000 and $30,440,000, respectively.

- Series 2005 Airport Revenue Refunding Bonds, for $37,805,000 at interest rates ranging from 3.5 percent to 5 percent (effective interest rate of

5.642 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2006 and 2005, was $37,775,000 and $0, respectively.

The total revenue bonds payable at September 30, 2006 and 2005, were $389,800,000 and $396,030,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2006, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2007		$10,943	$10,943
2008	$8,140	21,699	29,839
2009	8,515	21,344	29,859
2010	8,855	20,980	29,835
2011	9,240	20,588	29,828
2012-2016	55,195	94,513	149,708
2017-2021	64,330	76,973	141,303
2022-2026	70,700	58,213	128,913
2027-2031	93,955	34,178	128,133
2032-2036	70,870	5,742	76,612
Total	$389,800	$365,173	$754,973

The following is a summary of bond transactions of the Port Authority for the years ended September 30, 2006 and 2005 (dollars in thousands):

	2006	2005
Beginning balance	$396,030	$403,530
Additions	37,805	
Reductions	(44,035)	(7,500)
Bonds payable at end of fiscal year	389,800	396,030
Less unamortized discount	(2,639)	(4,849)
Less unamortized accounting loss	(4,547)	(1,468)
Bonds payable at end of fiscal year, net	$382,614	$389,713

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 SWFIA.

The Port Authority has agreed to maintain such fees and rates to provide revenues sufficient to pay all current expenses of SWFIA and the greater of 125 percent of the principal and interest payments due in the next succeeding fiscal year or 100 percent of the principal and interest payments due in the next succeeding fiscal year plus any other required payments under the bond resolutions.

The 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 Refunding Bonds, Series 2002
- Airport Revenue Refunding Bonds, Series 2005

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, 2006 and 2005, consisted of the following (dollars in thousands):

	2006	2005
Airport Revenue Bonds, Series 1980	$11,990	$14,420
Airport Revenue Bonds, Series 1983	8,780	10,515
Airport Revenue Bonds, Series 2000B	36,180	0
Total outstanding	$56,950	$24,935

Debt Refundings

On January 10, 2006, the County issued Airport Revenue Refunding Bonds, Series 2005, in the amount of $37,805,000 at interest rates ranging from 3.5 percent to 5 percent maturing in fiscal years 2006 through 2033. Proceeds of the bonds were used to advance refund $36,180,000 of outstanding Airport Revenue Bonds, Series 2000B (Non-AMT) at an interest rate of 5.75 percent on current interest paying bonds maturing on October 1 in years 2032 and 2033.

On the date of issuance of the Series 2005 Bonds, the County purchased US Government Treasury and Agency Securities which were placed in an irrevocable trust with an escrow agent to provide for payment in full of the redemption price of the refunded Series 2000B Bonds. As a result, the refunded portion of the Airport Revenue Bonds, Series 2000B, is considered defeased as of January 10, 2006, and the liability for the refunded bonds has been removed from the financial statements.

The advance refunding resulted in a reduction of additional future debt service requirements by $4,627,000, which resulted in an economic gain (the difference between the present values of the old debt and new debt service requirements) of $2,417,000.

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). Effective January 1, 2006, a more favorable interest rate was negotiated of 67 percent of LIBOR plus 73 basis points which was 4.30 percent as of September 30, 2006. To date the Port Authority has drawn $10,000,000 from the line of credit. Principal is payable semi-annually beginning June 1, 2006 and interest is payable monthly on the unpaid balance until final maturity on December 1, 2020. The line of credit is collateralized by a lien on and a pledge of the net revenues of Page Field General Aviation Airport. The outstanding balance at September 30, 2006 and 2005, was $9,770,000 and $3,370,000, respectively.

The following is a summary of variable debt transactions of the Port Authority for the years ended September 30, 2006 and 2005 (dollars in thousands):

	2006	2005
Beginning balance	$3,370	$483
Additions	6,400	2,887
Variable debt payable at end of fiscal year	$9,770	$3,370

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, 2006, were as follows (dollars in thousands):

Fiscal Year	Amount
2007	$624
2008	533
2009	533
2010	533
2011	533
Total minimum payments required	$3,289

The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2006 and 2005, were $534,000 and $258,000, respectively.

Compensated Absences

The following is a summary of compensated absences transactions for the Port Authority for the years ended September 30, 2006 and 2005 (dollars in thousands):

	2006	2005
Beginning balance	$898	$733
Additions	1,804	1,577
Reductions	(1,873)	(1,412)
Compensated absences payable at end of fiscal year	$829	$898

NOTE VI: SUPPLEMENTAL 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	
	2006	2005	2006	2005
Condensed Statements of Net Assets				
Assets				
Current assets	$61,629	$62,035	$5,325	$5,138
Restricted assets	39,224	48,367	721	104
Capital assets	617,427	617,558	31,388	25,001
Other assets	6,144	6,410	29	32
Total assets	724,424	734,370	37,463	30,275
Liabilities				
Current liabilities	10,265	14,857	721	442
Current liabilities payable from restricted assets	4,920	11,254	1,195	1,416
Noncurrent liabilities	347,680	352,759	9,295	3,140
Total liabilities	362,865	378,870	11,211	4,998
Net assets				
Invested in capital assets, net of related debt	307,612	303,282	21,618	21,632
Restricted	1,227	2,363		
Unrestricted	52,720	49,855	4,634	3,645
Total net assets	$361,559	$355,500	$26,252	$25,277
Condensed Statements of Revenues, Expenses, and Changes in Net Assets				
Operating revenues				
User fees	$38,250	$26,912	$5,649	$4,587
Rentals	1,682	1,508	2,052	1,884
Concessions	35,931	29,441	70	73
Miscellaneous	228	169		1
Less: Rebates	(2,031)	(302)		
Total operating revenues	74,060	57,728	7,771	6,545
Operating expenses				
Depreciation	15,302	8,961	1,032	1,022
Other operating expenses	46,907	33,788	6,974	5,852
Total operating expenses	62,209	42,749	8,006	6,874
Operating income (loss)	11,851	14,979	(235)	(329)

NOTE VI: SUPPLEMENTAL INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2006	2005	2006	2005
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (continued)				
Non-operating revenues (expenses)				
Investment earnings	4,416	1,160	255	92
Interest expense	(21,163)	(2,281)		(59)
Other non-operating	4,231	639	609	701
Total non-operating revenues (expenses)	(12,516)	(482)	864	734
Income (loss) before capital contributions	(665)	14,497	629	405
Capital Contributions	8,617	7,262	346	1,948
Transfers	(1,893)	45,304		77
Change in net assets	6,059	67,063	975	2,430
Beginning net assets	355,500	288,437	25,277	22,847
Ending net assets	$361,559	$355,500	$26,252	$25,277
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$27,876	$15,138	$1,631	$835
Noncapital financing activities	(521)	(473)		254
Capital and related financing activities	(40,911)	(93,459)	(40)	1,862
Investing activities	3,623	105,509	264	92
Net increase (decrease)	(9,933)	26,715	1,855	3,043
Beginning cash and cash equivalents	73,695	46,980	3,685	642
Ending cash and cash equivalents	$63,762	$73,695	$5,540	$3,685

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 2006 and 2005. For the fiscal years ended September 30, 2006, 2005, and 2004, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated $1.8 million, $1.5 million, and $1.3 million, respectively, which represents 11 percent, 10 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, 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, 2006 and 2005, the Port Authority was assessed $1,625,000 and $1,176,000, respectively. There were no additional assessments for fiscal years 2006 and 2005. 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, 2006 and 2005, the Port Authority was charged $3,075,000 and $2,424,000, 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, 2006 and 2005, the Port Authority paid $510,000 and $581,000, 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, 2006 and 2005, the Port Authority had in process various construction contracts totaling $284,199,000 and $445,897,000, respectively. Costs on these contracts as of September 30, 2006 and 2005, totaled $263,745,000 and $389,945,000, respectively, including retainage payable of $5,460,000 and $11,223,000, 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.

On May 13, 2005, the County rebated to the U.S. Treasury the amount of $9,504,105 in respect of the outstanding Airport Revenue Bonds Series 2000A and Series 2000B, which amount represents 90 percent of the rebate as then calculated. Subsequent to such rebate, an internal County staff review raised concerns that the County may have underpaid the rebate amount. Accordingly, the County engaged an independent rebate consultant, Causey, Demgen & Moore, Inc., to recalculate the rebate due with respect to the Series 2000A and Series 2000B Bonds. As a result of this recalculation, the County made a supplemental rebate payment to the U.S. Treasury of $519,000 plus $48,000 of interest.

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. On March 6, 2006, the FAA approved the Port Authority to impose and use $6,932,692 in PFC revenue for the rehabilitation of runway 6/24 and Taxiway A. In addition, on April 18, 2006, the FAA approved an amendment to a previously approved application. This amendment was $25,676,000 for additional modifications to the Midfield Terminal. As a result, the total collection also decreased from $260,837,000 to $246,663,000, with an estimated collection date of February 2015.

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 $25,622,000 and $15,687,000, in fiscal years 2006 and 2005, respectively. These amounts are net of refunds and rebates, which were $318,000 and $2,031,000, respectively in fiscal year 2006, and $2,625,000 and $302,000, respectively in fiscal year 2005. Fees paid by Delta Airlines represented 4.4 percent and 6.4 percent of total airport revenues for fiscal years 2006 and 2005, 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. In addition, on November 7, 2005, Independence Air filed for bankruptcy protection and on January 5, 2006, the carrier ceased all operations at the airport. 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. 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, 2006
(unaudited)

Total Enplaned Passengers	Eligible Enplaned Passengers	Net PFC Cash Collections	Interest Income	Total PFC Revenue
3,803,563	3,742,879	$16,084,000	$743,387	$16,827,387

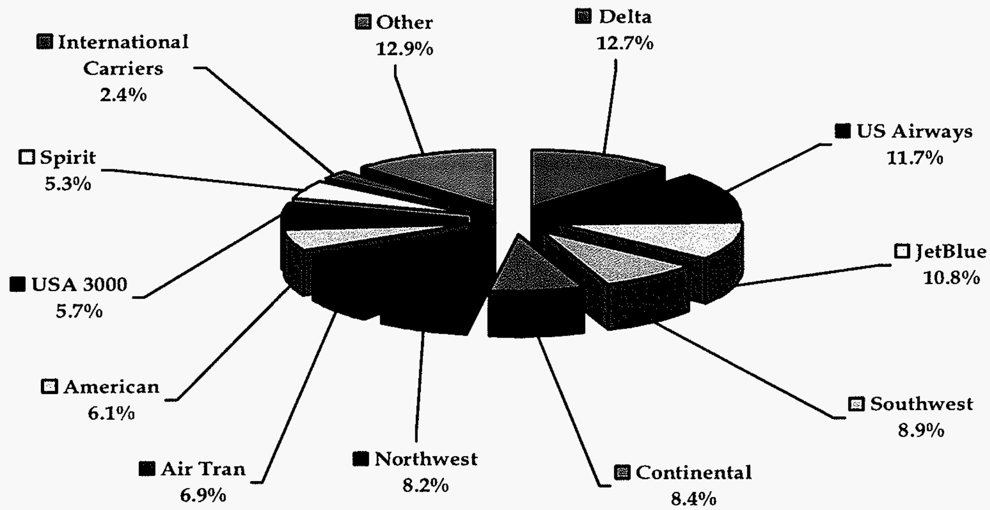
Southwest Florida International Airport
ESTIMATED DEBT SERVICE COVERAGE
For Fiscal Year Ending September 30, 2006

Actual PFC Revenues	Actual 2006 PFC debt service requirements	Actual debt service factor
$16,827,387	$6,791,127	2.48

Source: Lee County Port Authority

LEE COUNTY PORT AUTHORITY
Airline Market Share and Passenger Information
For the Fiscal Year Ended September 30, 2006
(unaudited)

Total passenger traffic is shown below for fiscal year 2006 showing market share for each major airline at Southwest Florida International Airport.



Airline	2006	2005	Change from 2005	% Change from 2005
Delta	962,324	1,627,634	(665,310)	-40.88%
US Airways	881,876	821,758	60,118	7.32%
JetBlue	818,411	694,004	124,407	17.93%
Southwest	668,788	-	668,788	100.00%
Continental	635,936	517,353	118,583	22.92%
Northwest	616,104	672,414	(56,310)	-8.37%
Airtran	520,527	396,842	123,685	31.17%
American	455,847	395,855	59,992	15.16%
USA 3000	433,114	502,228	(69,114)	-13.76%
Spirit	402,596	512,675	(110,079)	-21.47%
International Carriers	184,168	156,751	27,417	17.49%
Other*	973,334	1,122,068	(148,734)	-13.26%
Total	7,553,025	7,419,582	133,443	1.80%

* Represents all domestic carriers with less than a 3% market share.