Lee County Port Authority

Component Unit Financial Report

LEE COUNTY PORT AUTHORITY

Years Ended September 30, 2008 and 2007

Lee County Port Authority

Lee County, Florida

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LEE COUNTY PORT AUTHORITY

Direct Dial: (239) 590-4500
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March 5, 2009

Dear Friends:

I am pleased to present the Lee County Port Authority's financial results for the fiscal year ending September 30, 2008, a year which marked Southwest Florida International Airport's 25th anniversary!

For the year, total passengers at RSW were 7,695,198, a decrease of 4.66% or 376,456 passengers when compared to the previous year. Operating expenses before depreciation were approximately $66.0 million, an increase of $5.2 million. Increases in this category were related to personnel and benefits costs, contracted services, and maintenance items. Total operating revenues were approximately $86.5 million, an increase over the prior year of approximately $1.9 million. Changes in this category were primarily attributed to airline rents and debt-service rebate payments. The net effect of these factors has resulted in a cost-per-enplaned passenger of $7.49 and a combined refund to our airline partners of approximately $522,000.

Major ongoing projects this past fiscal year included the conceptual design of the parallel runway at RSW, and apron and taxiway improvements at Page Field. In March 2008, the Board approved a ground lease with Gulf Coast Technology Center, Inc. for the development of a bioscience and technology research complex. Phase I, which is located across from the former terminal building, includes 25 acres of land and 275,000 square feet of office and lab space in multiple buildings.

Notable awards in 2008 included the "Outstanding Commercial Service Airport of the Year" and the "General Aviation Airport of the Year" presented by the Florida Department of Transportation. Another notable award the Airport received was first place for "Best Concession Program Design" by Airport Revenue News. This past year also saw new and expanded air service to Washington-Dulles, St. Louis, Buffalo, Columbus, Marathon, and Düsseldorf.

Turning our attention to the Page Field General Aviation Airport, the design of the new General Aviation Terminal is now complete. Construction of the parallel taxiways for the terminal has been completed and construction of the apron is currently in progress. We continue to actively seek funding for the completion of this exciting project.

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

March 5, 2009
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Once again, 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 and business community of 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/dab
Enclosure

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

Independent Auditors' Report

The Board of County Commissioners
Lee County, Florida:

We have audited the accompanying basic financial statements of the Lee County Port Authority (a blended component unit of Lee County, Florida), as of and for the years ended September 30, 2008 and 2007, 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 provides 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, 2008 and 2007, 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 basic 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 audit was conducted for the purpose of forming an opinion on the Lee County Port Authority's basic 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 basic financial statements. Such additional information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

March 4, 2009
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, 2008 and 2007. 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 2008, 2007, and 2006.

Table 1
Summary of Net Assets
September 30, 2008, 2007 and 2006
(000's)

	2008	2007	2006
Current and other assets	$177,673	$165,281	$143,133
Capital Assets	698,942	703,012	684,038
Total assets	876,615	868,293	827,171
Current liabilities	35,239	38,250	23,055
Non-current liabilities	372,619	381,136	392,778
Total liabilities	407,858	419,386	415,833
Net assets:			
Invested in capital assets, net of related debt	348,639	343,304	327,225
Restricted	37,452	27,891	16,945
Unrestricted	82,666	77,712	67,168
Total net assets	$468,757	$448,907	$411,338

In 2008 software is classified as a capital asset vs. an intangible asset; therefore, the previous years have been modified to reflect the change.

Summary of Net Assets Analysis

In 2008, total assets increased $8,322,000. This increase was primarily due to an increase in cash and cash equivalents of $14,977,000, a net decrease in accounts receivable of $1,309,000, and a decrease in capital assets of $4,070,000. In 2008, total liabilities decreased $11,528,000. This decrease was primarily due to a decrease in contracts and accounts payable of $4,333,000, an increase in accrued liabilities of $2,420,000, a decrease in refunds and rebates of $1,357,000 and a decrease in bonds payable of $7,626,000.

In 2007, total assets increased $41,122,000. This increase was primarily due to an increase in prepaid insurance of $1,990,000, cash and cash equivalents with fiscal agent of $19,082,000, and a net increase in total capital assets of $18,974,000. In 2007, total liabilities increased $3,553,000. This increase was primarily due to a decrease in contracts and accounts payable of $7,850,000, an increase in accrued liabilities of $12,097,000, an increase refunds and rebates of $3,461,000, and a decrease in notes payable of $4,158,000.

Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2008, 2007 and 2006.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2008, 2007 and 2006
(000's)

	2008	2007	2006
Revenues, net:			
User fees	$48,445	$42,858	$43,900
Rental cars	16,567	16,255	16,114
Parking	13,673	14,788	13,819
Other, net	7,811	10,650	8,000
Total revenues, net	86,496	84,551	81,833
Expenses:			
Salaries, wages and benefits	29,940	26,056	22,808
Contractual services, materials and supplies, Utilities, Repairs and Maintenance	30,349	28,653	26,402
Depreciation and amortization	20,077	17,446	16,334
Other	5,749	6,128	4,749
Total expenses	86,115	78,283	70,293
Operating income	381	6,268	11,540
Non-operating revenues (expenses):			
Investment earnings	3,384	6,712	5,919
Interest expense	(22,341)	(22,703)	(23,127)
Passenger facility charges	15,478	16,858	15,567
Other revenues (expenses)	493	715	4,840
Total non-operating revenues (expenses)	(2,986)	1,582	3,199
Income (loss) before capital contributions	(2,605)	7,850	14,739
Capital contributions	22,455	29,719	25,359
Increase in net assets	19,850	37,569	40,098
Beginning net assets	448,907	411,338	371,240
Ending net assets	$468,757	$448,907	$411,338

Summary of Revenues and Expenses Analysis

In 2008, operating income totaled $381,000, a decrease of $5,887,000, which was a combination of an increase of $1,945,000 in total net revenues and an increase of $7,832,000 in operating expenses. The increase to total net revenues was a combination of an increase of $3,817,000 in participating airline rents, an increase of $1,960,000 in landing fees, an increase of $2,909,000 in rebates paid to participating airlines, and a decrease of $1,115,000 in parking lot revenues. Operating expenses increased in 2008, mainly due to a $3,884,000 increase in personnel costs, an increase of $1,710,000 in contractual services due to an increase in fuel costs and management fees for the parking lot and baggage handling system, and an increase in depreciation of $2,631,000.

In 2007, income before capital contributions was $7,850,000, a decrease of $6,889,000. This was due, in part, to a decrease of $1,042,000 in user fees due to an increased refund of airline fees for the participating airlines. Other increases in operating revenues included an increase of $1,092,000 in airport concessions, an increase of $969,000 in parking, and a $141,000 increase in rental cars. Operating expenses increased in 2007 by $7,990,000, including a $3,248,000 increase in personnel costs, a $955,000 increase in utilities, an increase of $1,919,000 in insurance, and a $1,112,000 increase in depreciation due to the new terminal. In addition, net income before capital contributions decreased due to a one-time Transportation Security reimbursement of $4,000,000 in 2006.

Capital Assets

Table 3 reflects a summary of capital assets for 2008, 2007, and 2006.

Table 3
Capital Assets
September 30, 2008, 2007 and 2006
(000's)

	2008	2007	2006
Land	$139,368	$127,152	$127,208
Construction in progress	11,858	62,696	47,209
Software in progress	136		
Building	328,797	328,739	350,031
Improvements	17,948	17,874	18,788
Equipment	44,472	30,784	29,245
Software	2,670	2,670	2,133
Infrastructure	280,821	240,839	236,646
Subtotal	826,070	810,754	811,260
Less accumulated depreciation and amortization	(127,128)	(107,742)	(127,222)
Total	$698,942	$703,012	$684,038

In 2008 software is classified as a capital asset vs. an intangible asset; therefore, the previous years have been modified to reflect the change.

Capital assets decreased by $4,070,000 in 2008. Major capital spending in 2008 include $9,500,000 in land purchases for right-of-way for the I75 to Southwest Florida International Airport Access Roadway System, $3,183,000 on the conceptual design for the parallel runway, and $633,000 on the design of the General Aviation terminal complex.

Capital assets increased by $18,974,000 in 2007. Significant capital expenses for 2007 were the final capitalization of the new terminal of $7,600,000, the completion of new hangars and Ramp Expansion at Page Field $8,130,000, and improvements to the Page Field North Quad infrastructure $1,116,000. The significant decrease in buildings and accumulated depreciation in 2007 was due to the disposal of the old terminal.

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

Debt Administration

As of September 30, 2008, the Port had $386,797,000 in outstanding debt, a decrease of $8,435,000. 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, 2008, the total outstanding amount on this line was $5,137,000.

Table 4
Outstanding Debt
September 30, 2008, 2007 and 2006
(000's)

	2008	2007	2006
Series 2002 Airport Revenue Refunding Bonds	$18,980	$24,800	$24,800
Series 2005 Airport Revenue Refunding Bonds	37,740	37,775	37,775
2004 Line of Credit Note	5,137	5,432	9,770
Series 2000A Airport Revenue Bonds	291,155	291,155	291,155
Series 1998 Passenger Facility Bonds	33,785	36,070	36,070
Total	$386,797	$395,232	$399,570

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

Passenger Facility Charges

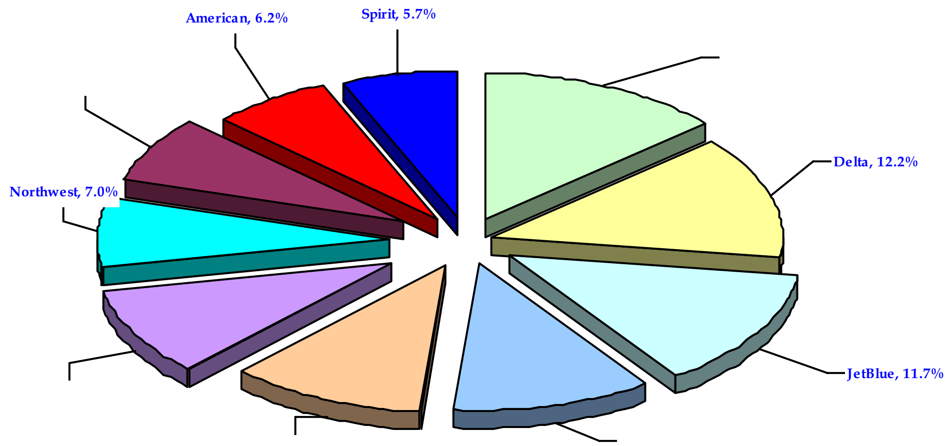
In November 1992, the Port received approval from the Federal Aviation Administration to impose a Passenger Facility Charge (PFC) of $3.00 per eligible enplaned passenger. In 1998, the Port issued PFC Revenue Bonds for $52,225,000 to fund eligible capital improvements and land acquisition. In November 2003, the Port was granted authority to raise the PFC level from $3.00 to $4.50. In November 2006, 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, 2007, the FAA approved an amendment to a previously approved application. This amendment was $25,676,000 for additional modifications to the new terminal. The Airport has a total collection authority of $246,663,000 with an estimated collection date of February 2015.

Airport Activities

The total passenger count for fiscal year 2008 was 7,695,198, a decrease of approximately four and a half percent over the prior year. Below is a summary of increased airline service to Southwest Florida International Airport over the past year.

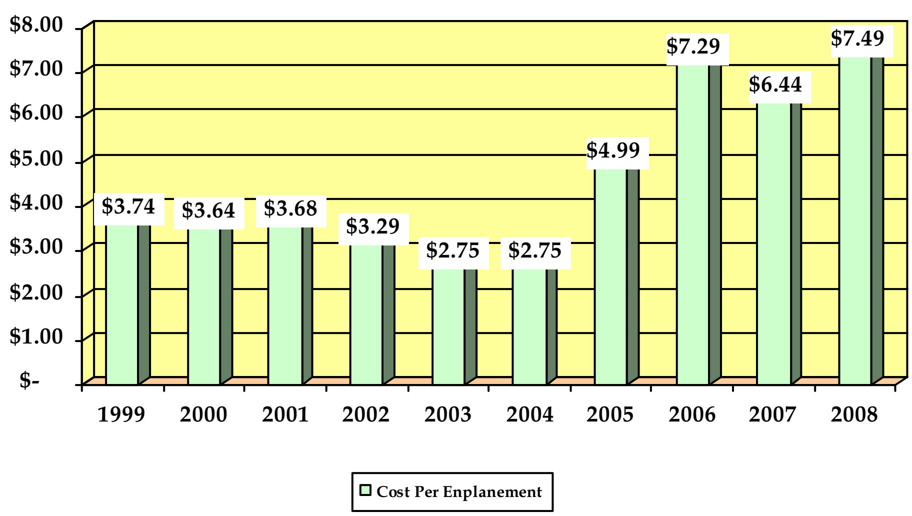
- Air Tran inaugurated daily non stop service to Milwaukee, Pittsburg, Buffalo, and Kansas City.
- Jet Blue inaugurated service to Buffalo and White Plains NY.
- SunWing inaugurated service to Toronto.
- Air Berlin started twice weekly Munich service, plus an additional Düsseldorf flight for a total of 5 flights to Germany.

The following chart exhibits the Total Passenger Market Share for the Top Ten Airlines operating at Southwest Florida International Airport during Fiscal Year 2008.



Airline Rates and Charges

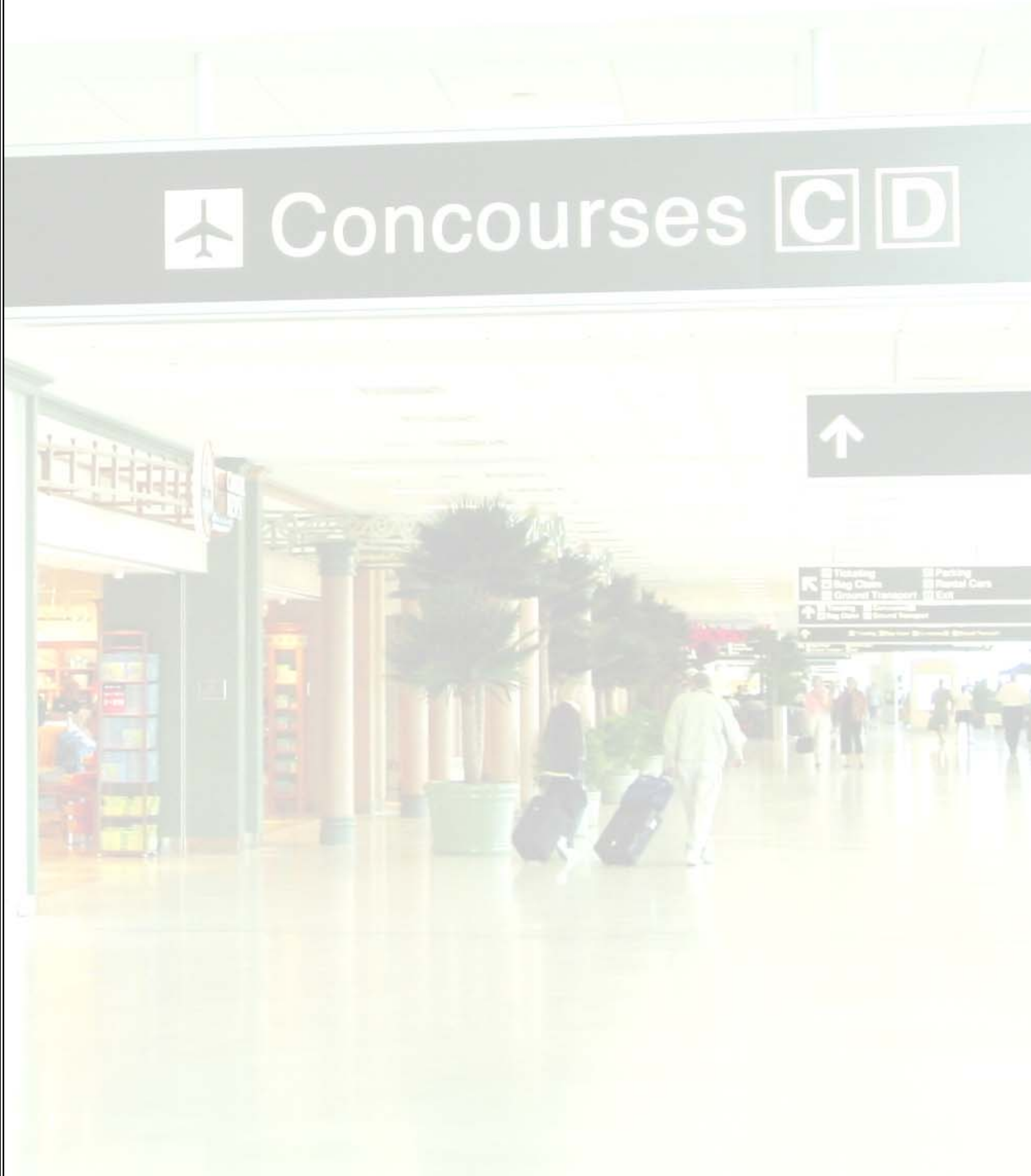
In 1998, the Port amended its *Airport Use Agreement* (the Agreement) with ten airlines, known collectively as the Participating Airlines. The Agreement with the airlines uses a residual rate setting methodology. Each year actual revenues and expenses are compared to budget. Differences between actual 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 2008. In fiscal year 2008, the Airlines collectively shared a refund of $521,770. In addition, the Airlines collectively received $3,931,967, their pro rata share of the annual debt service coverage. It is typical for the airline industry to measure its costs by its cost per enplaned passenger. Airports use this as a management tool to assess how well they are doing compared to the industry and how effective they are in managing the airport. The following chart shows the cost per enplanement at Southwest Florida International Airport over the past 10 fiscal years. Please note, the increase in 2006 was due to the first full year of operations in the new terminal.



Financial Contact

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

Financial Statements



LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2008 and 2007

(amounts expressed in thousands)

	2008	2007
ASSETS		
Current assets:		
Cash and equity in pooled cash and investments	$81,706	$73,193
Restricted assets	19,272	19,282
Receivables (net):		
Accounts	5,209	5,643
Grants	7,192	7,768
Accrued interest	56	
Due from other governments	7	3
Inventories	790	853
Other	1,677	2,488
Total current assets	115,909	109,230
Noncurrent assets:		
Restricted assets	57,539	51,568
Capital assets (net)	698,942	703,012
Intangible assets	22	25
Unamortized bond costs	4,203	4,458
Total noncurrent assets	760,706	759,063
Total assets	876,615	868,293
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	5,517	9,850
Accrued liabilities	3,920	1,500
Refunds and rebates	4,454	5,811
Due to Board of County Commissioners	118	13
Due to other governments	297	256
Customer deposits	508	756
Deferred revenues	530	303
Compensated absences	743	697
Notes payable	305	295
Current liabilities payable from restricted assets		
Contracts and accounts payable		200
Accrued liabilities	10,757	10,942
Revenue bonds payable	8,090	7,627
Total current liabilities	35,239	38,250
Noncurrent liabilities:		
Compensated absences	328	322
Notes payable	4,832	5,137
Revenue bonds payable	367,458	375,547
Other	1	130
Total noncurrent liabilities	372,619	381,136
Total liabilities	407,858	419,386
NET ASSETS		
Invested in capital assets, net of related debt	348,639	343,304
Restricted for:		
Capital Projects	28,432	18,899
Debt service	8,521	8,489
Renewal and Replacement	499	503
Unrestricted	82,666	77,712
Total Net Assets	$468,757	$448,907

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

LEE COUNTY PORT AUTHORITY

Lee County, Florida

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2008 and 2007

(amounts expressed in thousands)

	2008	2007
OPERATING REVENUES		
User fees	$48,445	$42,858
Rentals	4,539	4,085
Concessions	6,947	7,161
Parking Revenues	13,673	14,788
Rental Car Revenues	16,567	16,255
Miscellaneous	257	427
Total operating revenues	90,428	85,574
Less: Rebates	(3,932)	(1,023)
Net operating revenues	86,496	84,551
OPERATING EXPENSES		
Salaries and wages	19,387	17,599
Employee benefits	10,553	8,457
Contractual services, materials and supplies	22,610	19,939
Utilities	5,277	5,906
Repairs and maintenance	2,462	2,808
Insurance	4,005	4,053
Other	1,744	2,075
Depreciation and amortization	20,077	17,446
Total operating expenses	86,115	78,283
Operating income	381	6,268
NON-OPERATING REVENUES (EXPENSES):		
Investment earnings	3,384	6,712
Interest expense	(22,341)	(22,703)
Grants	338	1
Gain on disposal of capital assets	21	75
Passenger facility charges	15,478	16,858
Other revenues	148	652
Other expenses	(14)	(13)
Total non-operating revenues (expenses)	(2,986)	1,582
Income (loss) before capital contributions	(2,605)	7,850
Capital contributions	22,455	29,719
Change in net assets	19,850	37,569
Total net assets- beginning	448,907	411,338
Total net assets - ending	$468,757	$448,907

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, 2008 and 2007

(amounts expressed in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$85,815	$87,599
Cash received from customer deposits	(247)	197
Other cash receipts	27	885
Payments to suppliers	(39,455)	(40,937)
Payments to employees	(27,427)	(24,692)
Net cash provided by operating activities	18,713	23,052
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	296	1
Net cash provided by noncapital financing activities	296	1
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	23,073	29,760
Proceeds from passenger facilities charges	15,763	16,908
Additions to capital assets	(16,121)	(40,568)
Principal paid on bonds, loans, and leases	(8,435)	(4,338)
Interest paid on bonds, loans, and leases	(21,877)	(11,356)
Proceeds from sale of capital assets	33	32
Net cash used in capital and related financing activities	(7,564)	(9,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	52,512	27,066
Purchase of investments	(52,854)	(26,872)
Interest on investments	4,064	6,639
Net cash provided by investing activities	3,722	6,833
Net increase in cash and equity in pooled cash and investments	15,167	20,324
Cash and equity in pooled cash and investments at beginning of year	114,863	94,539
Cash and equity in pooled cash and investments at end of year	$130,030	$114,863
Classified as:		
Current assets		
Cash and equivalent	$81,706	$73,193
Restricted assets	$19,272	$19,282
Non-current assets		
Restricted assets	29,052	22,388
Totals	$130,030	$114,863
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
(Decrease) increase in fair value of investments	($210)	$183

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, 2008 and 2007

(amounts expressed in thousands)

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$381	$6,268
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	20,077	17,446
Other revenues	158	964
Decrease (increase) in accounts receivable	449	(160)
(Increase) in due from other governments	(4)	
Decrease (increase) in inventories	64	(149)
Decrease (increase) in other assets	812	(1,990)
Decrease in contracts and accounts payable	(4,334)	(4,103)
Increase in accrued liabilities	2,419	1,155
Increase (decrease) in refunds and rebates	(1,358)	3,462
Increase in due to Board of County Commissioners	105	7
Increase in due to other governments	41	20
Increase (decrease) in customer deposits	(247)	197
Increase (decrease) in deferred revenues	227	(254)
Increase in compensated absences	52	189
Decrease in other liabilities	(129)	
Total adjustments	18,332	16,784
Net cash provided by operating activities	$18,713	$23,052

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 an enterprise fund to report its activities.

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

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

Measurement Focus

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

Basis of Accounting

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

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 Equity in Pooled Cash and Investments

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

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

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

Investments

The Port Authority reports all investments at fair value, with the exception of debt investments held in an internal investment pool with a maturity within ninety days of purchase, repurchase agreements, and Local Government Surplus Funds Investment Pool Trust Fund (State Board of Administration (SBA)). All fair valuations are based on quoted market prices. The investment pool and repurchase agreements are stated at amortized cost, which approximates fair value. The fair value of the position in the Local Government Surplus Funds Investment Pool Trust Fund, an external 2a7-like investment pool, is the same as the value of the pool shares. The Port also participates in Fund B Surplus Funds Trust Fund, a fluctuating net asset value (NAV) external investment pool (Fund B).

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

Accounts Receivable

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

Inventory

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

The ranges of the useful lives are as follows:

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

Intangible Assets

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

Unamortized Premiums, Bond Discounts, and Issuance Costs

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

Unamortized Bond Gains or Losses

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

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. 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 expenses during the period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

NOTE II. RECEIVABLES

At September 30, 2008 and 2007, accounts receivable consisted of the following (dollars in thousands):

		Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
2008	Unrestricted	$5,459	($250)	$5,209
	Restricted	1,872		1,872
	Total	$7,331	($250)	$7,081
2007	Unrestricted	$5,893	($250)	$5,643
	Restricted	2,172		2,172
	Total	$8,065	($250)	$7,815

NOTE III. RESTRICTED ASSETS

At September 30, 2008 and 2007, restricted assets consisted of the following (dollars in thousands):

	2008	2007
Cash and equity in pooled cash and investments	$29,052	$22,588
Cash and cash equivalents with fiscal agent	19,272	19,082
Investments	26,575	26,874
Receivables (net):		
Accounts	1,872	2,172
Accrued interest	40	134
Total	$76,811	$70,850

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

As of September 30, 2008 and 2007, the Port Authority had the following deposits, investments, and maturities (amounts in thousands):

2008

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$403			N/A
Cash with fiscal agent	N/A	19,272			N/A
Demand deposits	N/A	833			N/A
Local Government Surplus Funds Investment Pool	8.5 days	761			AAAm
Fund B Surplus Funds Trust Fund	9.36 years	765			Unrated
Overnight repurchase agreement	1 day	30,000			N/A
Federated US Treasury Cash Reserves	N/A	24,929			AAAm
Goldman Sachs Financial Square Treasury Obligations Fund	N/A	53,067			AAAm
Federal Home Loan Mortgage Corp DN	02/23/2009	26,575	N/A	N/A	Unrated
Total		$156,605			

2007

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$280			N/A
Cash with fiscal agent	N/A	19,082			N/A
Demand deposits	N/A	608			N/A
State Board of Administration Investment Pool	34 days	94,893			Unrated
United States Treasury Note	10/31/2007	657			N/A
Federal Home Loan Bank	2/28/2008	26,217	N/A	N/A	AAA
Total		$141,737			

On November 29, 2007, the State Board of Administration (SBA) placed a freeze on all funds invested in the Local Government Surplus Funds Trust Fund Investment Pool (LGIP). This action was taken to prevent further deterioration in the overall pool as a result of significant withdrawals made by pool participants upon the disclosure the SBA had investment risk associated with mortgage backed securities that had the potential for significant declines in market value due to the sub-prime mortgage crisis taking place within the United States.

On December 6, 2007, the LGIP was divided into two pools, which created the new Local Government Investment Fund A that was allocated 86 percent of the assets in the old LGIP. Fund A has paid monthly interest and provided periodic liquidity throughout the year.

The newly created Local Government Investment Fund B contained 14 percent of the assets originally in the LGIP. This fund contains the securities that have problems with payment defaults, paid slower than expected or have significant credit risk. Interest income is not paid and distributed to Fund B participants; however, periodic liquidity has been made available. Fund B is accounted for as a fluctuating NAV pool, the fair value factor as of September 30, 2008 was .798385.

Credit Risk

The Port Authority adheres to the Board's Investment Policy (the Policy), which limits credit risk by restricting authorized investments to the following: Direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government; United States Government sponsored Corporation/ Instrumentalities; United States Government Agencies; The Florida Local Government Surplus Funds Trust Fund (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 United States government sponsored corporation/ instrumentalities or United States government agencies; Bonds, notes or obligations of any state of the United States, any municipality, political subdivision, agency or authority of Florida 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 United States Government securities and repurchase agreements secured by such securities.

The Policy requires that collateral for overnight and term repurchase agreements must maintain a minimum price of 101 percent on United States Treasuries and 102 percent on Agencies and Instrumentalities not to exceed five (5) years, and must be "marked to market" on a weekly basis. The Policy also requires that the obligations of any state or municipality be rated by at least one of the nationally recognized rating agencies in any one of the two (2) highest classifications, and that investments in money market mutual funds must be rated in the highest category by a nationally recognized rating service. The SBA at September 30, 2007 was an investment pool not rated by a nationally recognized statistical rating agency. For fiscal year 2008, Fund B was not rated. 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, 2008, all of the Port Authority's bank deposits were in qualified public depositories.

Interest Rate Risk

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

Concentration of Credit Risk

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

The County's total investment portfolio at September 30, 2008 and 2007, was $1,422,359,000 and $1,426,997,000, respectively. The portion of the Port Authority's portfolio invested in Federal instrumentalities is detailed as follows, at September 30, 2008 and 2007:

2008

Issuer	Percent of Total Portfolio
Federal Home Loan Mortgage Corporation	1.87%

2007

Issuer	Percent of Total Portfolio
Federal Home Loan Bank	1.84%

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

2008

Current:	
Cash and cash equivalents	$81,706
Restricted:	
Cash with fiscal agent	19,272
Non-current:	
Restricted:	
Cash and cash equivalents	29,052
Investments	26,575
Total	$156,605

2007

Current:	
Cash and cash equivalents	$73,193
Restricted:	
Cash with fiscal agent	19,082
Cash and cash equivalents	200
Non-current:	
Restricted:	
Cash and cash equivalents	22,388
Investments	26,874
Total	$141,737

NOTE V. CAPITAL ASSETS

Increases and decreases in capital asset activity include transfers. Capital asset activity for the fiscal years ended September 30, 2008 and 2007, was as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2008				
Capital assets not being depreciated:				
Land	$127,152	$12,216		$139,368
Construction in progress	62,696	14,661	($65,499)	11,858
Software in progress		136		136
Total capital assets not being depreciated	189,848	27,013	(65,499)	151,362
Capital assets being depreciated:				
Buildings	328,739	279	(221)	328,797
Improvements other than buildings	17,874	74		17,948
Machinery and equipment	30,784	14,396	(708)	44,472
Software	2,670			2,670
Infrastructure	240,839	39,982		280,821
Total capital assets being depreciated	620,906	54,731	(929)	674,708
Less accumulated depreciation for:				
Buildings	22,935	6,800		29,735
Improvements other than buildings	4,268	1,092		5,360
Machinery and equipment	14,258	2,541	(687)	16,112
Software	1,045	524		1,569
Infrastructure	65,236	9,116		74,352
Total accumulated depreciation	107,742	20,073	(687)	127,128
Total capital assets being depreciated, net	513,164	34,658	(242)	547,580
Capital assets, net	$703,012	$61,671	($65,741)	$698,942
Fiscal Year 2007				
Capital assets not being depreciated:				
Land	$127,208		($56)	$127,152
Construction in progress	47,209	$35,727	(20,240)	62,696
Total capital assets not being depreciated	174,417	35,727	(20,296)	189,848
Capital assets being depreciated:				
Buildings	350,031	11,353	(32,645)	328,739
Improvements other than buildings	18,788	2,417	(3,331)	17,874
Machinery and equipment	29,245	2,579	(1,040)	30,784
Software	2,133	537		2,670
Infrastructure	236,646	4,327	(134)	240,839
Total capital assets being depreciated	636,843	21,213	(37,150)	620,906
Less accumulated depreciation for:				
Buildings	48,637	6,943	(32,645)	22,935
Improvements other than buildings	6,550	1,048	(3,330)	4,268
Machinery and equipment	13,149	1,934	(825)	14,258
Software	511	534		1,045
Infrastructure	58,375	6,995	(134)	65,236
Total accumulated depreciation	127,222	17,454	(36,934)	107,742
Total capital assets being depreciated, net	509,621	3,759	(216)	513,164
Capital assets, net	$684,038	$39,486	($20,512)	$703,012

NOTE V. CAPITAL ASSETS (continued)

Interest costs related to construction are capitalized. In addition, earnings from the investment of tax-exempt bond proceeds earmarked for construction are off-set against interest subject to capitalization. Net interest expense capitalized for the years ended September 30, 2008 and September 30, 2007, was $105,000 and $399,000, 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, 2008, minimum future rentals of operating leases were as follows (dollars in thousands):

Fiscal Year(s)	Amount
2009	$19,935
2010	19,549
2011	14,174
2012	14,040
2013	13,962
Total minimum future revenue	$81,660

For the years ended September 30, 2008 and 2007, $8,093,000 and $7,375,000, respectively, of contingent rentals were included in rentals, concessions, and rental car revenues on the accompanying Statements of Revenues, Expenses, and Changes in Net Assets.

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

NOTE VI. LONG-TERM DEBT

Revenue Bonds

Revenue bonds payable at September 30, 2008 and 2007, 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, 2008 and 2007, was $33,785,000 and $36,070,000, 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, 2008 and 2007, was $291,155,000 and $291,155,000, 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, 2008 and 2007, was $18,980,000 and $24,800,000, 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, 2008 and 2007, was $37,740,000 and $37,775,000, respectively.

The total revenue bonds payable at September 30, 2008 and 2007, were $381,660,000 and $389,800,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2008, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2009	$8,515	$21,344	$29,859
2010	8,855	20,980	29,835
2011	9,240	20,587	29,827
2012	9,865	20,116	29,981
2013	10,415	19,551	29,966
2014-2018	61,630	87,896	149,526
2019-2023	63,550	69,620	133,170
2024-2028	79,105	49,531	128,636
2029-2033	105,550	22,284	127,834
2034-2038	24,935	623	25,558
Total	$381,660	$332,532	$714,192

The following is a summary of bond activity of the Port Authority for the years ended September 30, 2008 and 2007 (dollars in thousands):

	2008	2007
Beginning balance	$389,800	$389,800
Additions		
Reductions	(8,140)	
Bonds payable at end of fiscal year	381,660	389,800
Less unamortized discount	(2,385)	(2,516)
Less unamortized refunding loss	(3,727)	(4,110)
Bonds payable at end of fiscal year, net	$375,548	$383,174

Bond Resolutions

The Airport Revenue Bonds, Series 2000A (AMT), Airport Revenue Refunding Bonds, Series 2002, and Airport Revenue Refunding Bonds, Series 2005, 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 XI.

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, 2008 and 2007, consisted of the following (dollars in thousands):

	2008	2007
Airport Revenue Bonds, Series 1980	$6,490	$9,355
Airport Revenue Bonds, Series 1983	4,790	6,875
Airport Revenue Bonds, Series 2000B	36,180	36,180
Total outstanding	$ 47,460	$ 52,410

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 2.40 percent as of September 30, 2008. 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, 2008 and 2007, was $5,137,000 and $5,432,000, respectively.

The annual debt service requirements for the Port's variable debt at September 30, 2008, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2009	$305	$253	$558
2010	325	238	563
2011	340	221	561
2012	355	204	559
2013	375	186	561
2014-2018	2,180	626	2,806
2019-2021	1,257	94	1,351
Total	$5,137	$1,822	$6,959

The following is a summary of variable debt activity of the Port Authority for the years ended September 30, 2008 and 2007 (dollars in thousands):

	2008	2007
Beginning balance	$5,432	$9,770
Additions (Deletions)	(295)	(4,338)
Variable debt payable at end of fiscal year	$5,137	$5,432

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, 2008, were as follows (dollars in thousands):

Fiscal Year	Amount
2009	$326
2010	326
2011	286
2012	272
2013	272
Total minimum payments required	$1,482

The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2008 and 2007, were $607,000 and $609,000, respectively.

Compensated Absences

The following is a summary of compensated absences activity for the Port Authority for the years ended September 30, 2008 and 2007 (dollars in thousands):

	2008	2007
Beginning balance	$1,019	$829
Additions	2,171	2,074
Reductions	(2,119)	(1,884)
Compensated absences payable at end of fiscal year	$1,071	$1,019

NOTE VII: SEGMENT INFORMATION

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

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2008	2007	2008	2007
Condensed Statements of Net Assets				
Assets				
Current assets	$83,790	$76,859	$4,483	$4,147
Restricted assets	50,924	52,253		
Capital assets	649,197	611,850	40,399	40,799
Other assets	4,066	4,294	22	26
Total assets	787,977	745,256	44,904	44,972
Liabilities				
Current liabilities	14,971	15,161	1,584	2,280
Current liabilities payable from restricted assets	17,085	18,535		
Noncurrent liabilities	336,546	342,271	4,832	5,137
Total liabilities	368,602	375,967	6,416	7,417
Net assets				
Invested in capital assets, net of related debt	337,493	293,256	35,261	35,366
Restricted	13,298	13,033		
Unrestricted	68,584	63,000	3,227	2,189
Total net assets	$419,375	$369,289	$38,488	$37,555
Condensed Statements of Revenues, Expenses, and Changes in Net Assets				
Operating revenues				
User fees	$42,112	$37,220	$6,333	$5,638
Rentals	2,088	1,688	2,451	2,397
Concessions	37,131	38,145	56	59
Miscellaneous	255	259	2	168
Less: Rebates	(3,932)	(1,023)		
Total operating revenues	77,654	76,289	8,842	8,262
Operating expenses				
Depreciation	18,566	16,112	1,511	1,334
Other operating expenses	57,056	52,620	8,679	7,996
Total operating expenses	75,622	68,732	10,190	9,330
Operating income (loss)	2,032	7,557	(1,348)	(1,068)

NOTE VII: SEGMENT INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2008	2007	2008	2007
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (continued)				
Non-operating revenues (expenses)				
Investment earnings	2,684	4,964	62	209
Interest expense	(20,544)	(20,848)	(146)	
Other non-operating	490	490		225
Total non-operating revenues (expenses)	(17,370)	(15,394)	(84)	434
Loss before capital contributions	(15,338)	(7,837)	(1,432)	(634)
Capital Contributions	8,577	14,364	2,365	8,073
Transfers	56,847	1,203	0	3,864
Change in net assets	50,086	7,730	933	11,303
Beginning net assets	369,289	361,559	37,555	26,252
Ending net assets	$419,375	$369,289	$38,488	$37,555
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$22,114	$26,846	($571)	$1,573
Noncapital financing activities	486	(847)	0	3,863
Capital and related financing activities	(16,067)	(10,397)	2,235	(9,415)
Investing activities	2,924	4,613	59	408
Net increase (decrease)	9,457	20,215	1,723	(3,571)
Beginning cash and cash equivalents	83,977	63,762	1,969	5,540
Ending cash and cash equivalents	$93,434	$83,977	$3,692	$1,969

NOTE VIII. RETIREMENT PLAN

Plan Description and Provisions

The Port Authority participates in the Florida Retirement System (FRS), a cost - sharing, multiple - employer, public employee retirement system, which covers substantially all of the full time and part time employees. The primary plan is a defined benefit plan for all state, participating county, district school board, community college, and university employees (Pension Plan). The FRS also offers eligible employees participation in an alternative defined contribution plan (Investment Plan). The FRS is noncontributory and is totally administered by the State of Florida.

Benefits under the Pension Plan vest after six years of service. Employees who retire at or after age 62, with six years of credited service, or with 30 years of service regardless of age, are entitled to an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by Chapters 112 and 121, *Florida Statutes.*

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

Pension costs for the Port Authority as required and defined by State statute ranged between 10 percent and 21 percent of gross salaries for fiscal years 2008 and 2007. For the fiscal years ended September 30, 2008, 2007, and 2006, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated $2.5 million, $2.2 million, and $1.8 million respectively, which represents 13 percent, 13 percent, and 11 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.

Other Post Employment Benefits

The Port provides post retirement health care benefits, through participation in a self-funded insurance plan, to all employees who retire from the Port. In accordance with Chapter 110.123, *Florida Statutes,* the Port is required to provide group health care at cost to all retirees. For employees hired on or before January 01, 2008, the Port currently pays 50 percent of the portion of the premium for the retiree to participate in the Plan. This policy was discontinued on January 01, 2008; therefore, the Port does not currently subsidize any portion of the premium for employees hired after that date. The County has the authority to establish and amend the benefit provisions of the plan. The County follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Expenses related to these benefits totaling $2,331,000 and 1,070,000 for 2008 and 2007, respectively, are reported in this report as well as the proprietary fund financial statements of the County. For fiscal years ended September 30, 2008 and 2007, the Other Post Employment Benefits liability totaled $3,401,000, and $1,070,000 respectively, and is included in accrued liabilities on the accompanying Statement of Net Assets.

NOTE IX. 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, 2008 and 2007, the Port Authority was assessed $2,803,000 and $1,796,000, respectively. There were no additional assessments for fiscal years 2008 and 2007. 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, 2008 and 2007, the Port Authority was charged $4,117,000 and $3,598,000, 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, 2008 and 2007, the Port Authority paid $317,000 and $264,000, respectively, to third-party carriers. Settled claims have not exceeded insurance coverage in any of the past three years. As a result there was no reduction in insurance coverage.

NOTE X. COMMITMENTS AND CONTINGENCIES

At September 30, 2008 and 2007, the Port Authority had in process various construction contracts totaling $19,187,000 and $60,595,000, respectively. Costs incurred on these contracts as of September 30, 2008 and 2007, totaled $8,784,000 and $51,402,000 respectively, including retainage payable of $88,000 and $3,207,000, 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 noncurrent liabilities.

NOTE XI. 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 XII. 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 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 $29,662,000 and $23,786,000 in fiscal years 2008 and 2007, respectively. These amounts are net of refunds and rebates which were $522,000 and $3,932,000, respectively in fiscal year 2008, and $4,788,000 and $1,023,000, respectively in 2007.

The Port Authority recently negotiated a new airline use agreement with the Airlines with the key terms of the agreement approved by the Board in May 2008. The new agreement, commonly referred to as a hybrid compensatory agreement, has a revenue sharing component. In any year in which there are net remaining revenues generated at the Airport, and all requirements of the Bond Resolution have been satisfied, the net remaining revenues shall be divided between the Authority (60%) and the Signatory Airlines (40%). The agreement provides for better flexibility as there is no MII approval required for capital projects. The new agreement will commence on October 1, 2008, and will have a five-year term, expiring on September 30, 2013. The new agreement will terminate and supersede the existing agreement, which is due to expire on December 31, 2008.

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

Currently, Sun Country Airlines is under bankruptcy protection. Sun Country is a non-participating seasonal carrier with eight weekly flights.

NOTE XIII. LITIGATION

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

LEE COUNTY PORT AUTHORITY
Southwest Florida International Airport
PASSENGER FACILITY CHARGE REVENUE REPORT
For Fiscal Year Ending September 30, 2008
(unaudited)

Total Enplaned Passengers	Eligible Enplaned Passengers	Net PFC Cash Collections	Interest Income	Total PFC Revenue
3,868,588	3,801,565	$15,478,257	$394,926	$15,873,183

Southwest Florida International Airport
ESTIMATED DEBT SERVICE COVERAGE
Series 1998 Bonds
For Fiscal Year Ending September 30, 2008
(unaudited)

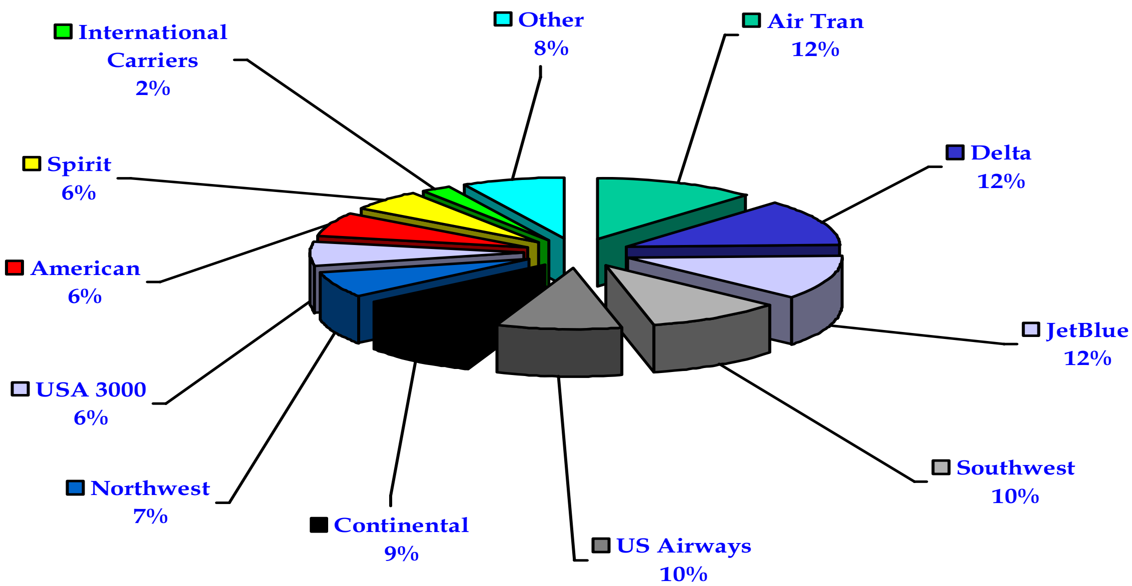
Actual PFC Revenues	Actual 2008 PFC debt service requirements*	Actual debt service factor
$15,873,183	$4,064,450	3.91

* Debt service requirements reported on a bond year basis.

Source: Lee County Port Authority

LEE COUNTY PORT AUTHORITY
Airline Market Share and Passenger Information
For the Fiscal Year Ended September 30, 2008
(unaudited)

Total passenger traffic is shown below for fiscal year 2008 showing market share for each major airline at Southwest Florida International Airport.



Airline	2008	2007	Change from 2007	% Change from 2007
Air Tran	947,919	821,916	126,003	15.33%
Delta	937,711	946,046	(8,335)	-0.88%
JetBlue	900,459	847,967	52,492	6.19%
Southwest	781,015	764,334	16,681	2.18%
US Airways	735,926	899,234	(163,308)	-18.16%
Continental	682,895	694,051	(11,156)	-1.61%
Northwest	537,779	609,831	(72,052)	-11.82%
USA 3000	491,615	473,694	17,921	3.78%
American	473,887	490,491	(16,604)	-3.39%
Spirit	434,826	578,209	(143,383)	-24.80%
International Carriers	182,360	207,764	(25,404)	-12.23%
Other*	588,806	738,117	(149,311)	-20.23%
Total	7,695,198	8,071,654	(376,456)	-4.66%

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

LEE COUNTY PORT AUTHORITY