Lee County Port Authority

Component Unit Financial Report

LEE COUNTY PORT AUTHORITY

Years Ended September 30, 2012 and 2011

LEE COUNTY PORT AUTHORITY

Lee County Port Authority

Lee County, Florida

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LEE COUNTY PORT AUTHORITY

Direct Dial: (239) 590-4400
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March 11, 2013

Dear Friends:

I am pleased to present the Lee County Port Authority's (Port Authority) financial results for the fiscal year ending September 30, 2012. Despite continued global, regional, and local economic challenges, our financial results were positive.

For the fiscal year, total passengers at Southwest Florida International Airport were 7,267,960, a decrease of 5.09 percent when compared to the previous year. Operating expenses before depreciation were $61.6 million, an increase of $800,000 when compared to last year's results. Salaries increased by 2.8% or $560,000 mainly due to a one-time employee recognition award, while benefits decreased by 6.8% or $812,000, primarily due to a decrease of $477,000 in retirement contributions. The increase in operating expenses is mainly due to the cost of fuel for resale. Total revenues were $84.2 million, a net increase of $436,000 from last year's results, mainly due to an increase of $915,000 in fuel sales (due to a higher average sales price and an increase in total gallons sold), and a decrease of $421,000 in signatory airline rents (due to a lower terminal rental rate).

The result of the above factors was the signatory airlines received approximately $838,000 refund of landing fees and terminal rents. Additionally, the carriers received their share of net revenues, which totaled $2.5 million. The actual cost-per-enplaned passenger was calculated to be $7.22, which was $0.42 less than our budgeted projections.

Major ongoing projects in the past year included the continued conceptual design of the Parallel Runway, design and construction of the RSW Apron Expansion, and construction of the Aircraft Rescue & Fire Fighting Station.

The Port Authority was recognized during the year for many notable awards. The Florida Department of Transportation awarded LCPA with the 2012 Outstanding Commercial Service Airport of the Year Award for Southwest Florida International Airport. The Federal Aviation Administration presented RSW with the Airport Safety Mark of Distinction Award. LCPA was given the Outstanding Environmental Project Award for the Page Field General Aviation Terminal Complex by the Florida Planning & Zoning Association. The Florida Public Relations Association honored LCPA with an Award of Distinction at the Golden Image Awards for its Base Operations Dedication Ceremony, and finally, the American Heart Association acknowledged LCPA as a Gold Level Fit-Friendly Worksite.

SOUTHWEST FLORIDA INTERNATIONAL AIRPORT
11000 Terminal Access Road, Suite 8671 • Fort Myers, Florida 33913-8213
www.flylcpa.com

From an air service perspective, new markets and the expansion of existing markets over the past year included Hartford, Providence, Green Bay, Key West, New York/LaGuardia, New York/Kennedy, and Toronto. Turning our focus to Page Field, fiscal year 2012 marked the first full year of operation of the General Aviation Terminal Complex (Base Ops). Total gallons sold during the year were approximately 1.2 million gallons, a 10% increase over the previous year. Other ongoing projects at Page Field include the realignment of South Road and the continued design of the perimeter road.

We are extremely pleased with the results of the past fiscal year and look forward to serving our customers at Southwest Florida International Airport and Page Field during the upcoming year.

Sincerely,

LEE COUNTY PORT AUTHORITY

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

Report of Independent Auditor

To the Board of County Commissioners of
Lee County, Florida

and

To the Board of Port Commissioners of the
Lee County Port Authority:

We have audited the accompanying basic financial statements of the Lee County Port Authority (the "Authority"), a blended component unit of Lee County, Florida as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The supplemental schedule, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Cherry Bekaert LLP

Tampa, Florida
March 11, 2013

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, 2012 and 2011. 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 2012, 2011, and 2010.

Table 1
Summary of Net Assets
September 30, 2012, 2011, and 2010
(000's)

	2012	2011	2010
Current and other assets	$209,456	$200,809	$196,726
Capital Assets	662,542	689,930	686,046
Total assets	871,998	890,739	882,772
Current liabilities	30,204	31,791	33,198
Non-current liabilities	340,887	349,197	356,599
Total liabilities	371,091	380,988	389,797
Net assets:			
Invested in capital assets, net of related debt	353,539	369,207	355,435
Restricted	50,865	44,333	42,008
Unrestricted	96,503	96,211	95,532
Total net assets	$500,907	$509,751	$492,975

Summary of Net Assets Analysis

In 2012, total assets decreased $18,741,000. This decrease was primarily due to a combination of an increase in cash and cash equivalents of $4,143,000, an increase in cash and cash equivalents with fiscal agent of $4,782,000, a decrease in fixed assets of $9,915,000, an increase of $906,000 in construction work in progress and an increase of $18,379,000 in accumulated depreciation. In 2012, total liabilities decreased $9,897,000. This decrease was primarily due to a combination of a decrease in accounts payable of $1,985,000, a decrease of $3,656,000 in refunds and rebates payable, an increase of $3,831,000 in accrued liabilities, a decrease in bond and note payables of $10,688,000, and an increase in other post employment benefits ("OPEB") of $2,646,000.

In 2011, total assets increased $7,967,000. This increase was primarily due to a combination of an increase in cash and cash equivalents of $13,660,000, a decrease in receivables of $815,000, a decrease in investments of $10,183,000, an increase in fixed assets of $12,851,000, an increase of $6,044,000 in construction work in progress and an increase of $15,011,000 in accumulated depreciation. In 2011, total liabilities decreased $8,809,000. This decrease was primarily due to an increase in accounts payable of $3,070,000, a decrease of $3,346,000 in accrued liabilities, a decrease in bond and note payables of $11,892,000, and an increase in other post employment benefits ("OPEB") of $2,942,000.

Table 2 reflects a summary of revenues, expenses, and changes in net assets for 2012, 2011 and 2010.

Table 2
Summary of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2012, 2011 and 2010
(000's)

	2012	2011	2010
Revenues, net:			
User fees	$47,283	$46,837	$47,531
Rental cars	16,660	17,051	16,581
Parking	11,513	12,498	12,289
Other, net	8,758	7,392	6,533
Total revenues, net	84,214	83,778	82,934
Expenses:			
Salaries, wages and benefits	31,649	31,901	30,317
Contractual services, materials and supplies, Utilities, Repairs and Maintenance	26,568	25,744	24,650
Depreciation and amortization	19,568	19,709	19,632
Other	3,362	3,217	3,408
Total expenses	81,147	80,571	78,007
Operating income	3,067	3,207	4,927
Non-operating revenues (expenses):			
Investment earnings	530	471	701
Interest expense	(17,576)	(18,882)	(21,162)
Passenger facility charges	14,775	15,582	15,156
Other revenues (expenses)	133	263	439
Total non-operating revenues (expenses)	(2,138)	(2,566)	(4,866)
Income (loss) before capital contributions	929	641	61
Capital contributions	7,173	16,135	7,794
Special item-loss on discontinued project	(16,946)	0	0
Increase (decrease) in net assets	(8,844)	16,776	7,855
Beginning net assets	509,751	492,975	485,120
Ending net assets	$500,907	$509,751	$492,975

Summary of Revenues and Expenses Analysis

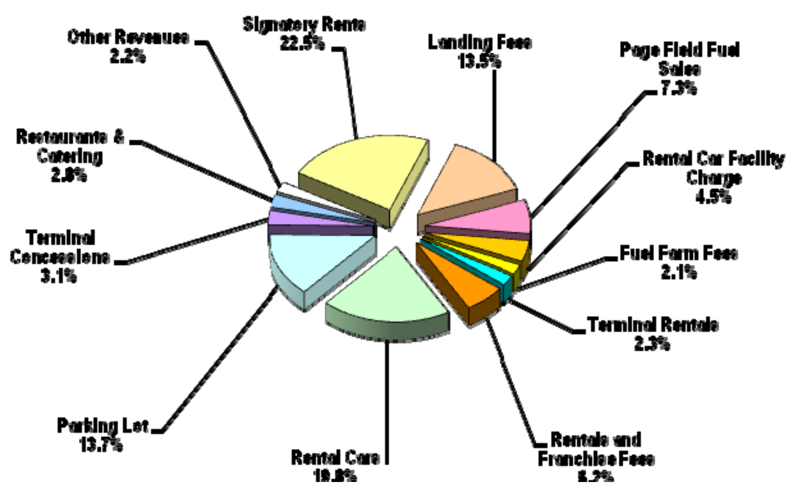
In 2012, operating income totaled $3,067,000, a decrease of $140,000, which was a combination of an increase of total net revenues of $436,000 and an increase of $576,000 in operating expenses. The increase in total net revenues was primarily due to an increase of $915,000 in fuel sales (due to a higher average sales price and an increase in total gallons sold), and a decrease of $421,000 in signatory airline rents (due to a lower terminal rental rate). Operating expenses increased $576,000 in 2012 mainly due to an decrease of $252,000 in salaries and benefits (mainly due to an increase of $560,000 in salaries, a decrease of $477,000 in retirement cotributions) and an increase of $887,000 in contractual services (due to an increase in cost of fuel sold for resale).

In 2011, operating income totaled $3,207,000, a decrease of $1,720,000, which was a combination of an increase of total net revenues of $844,000 and an increase of $2,564,000 in operating expenses. The increase in total net revenues was primarily due to an increase of $1,013,000 in fuel sales (due to a higher average sales price), an increase of $228,000 in privilege fees, a decrease of $1,081,000 in landing fees, (due to a lower landing fee) and a decrease of $1,037,000 in signatory airline rents (due to a lower terminal rental rate). Operating expenses increased $2,564,000 in 2011 mainly due to an increase of $1,584,000 in salaries and benefits (mainly due to an increase in OPEB) and an increase of $1,094,000 in contractual services (due to increased costs in the parking contract and an increase in cost of fuel sold for resale).

In 2012, capital contributions totaled $7,173,000, a decrease of $8,962,000. Major grants received this year include $2,528,000 for the new fire station, $1,163,000 for design and construction of the apron and $1,754,000 for the continued conceptual design of the parallel runway. In 2011, capital contributions totaled $16,135,000, an increase of $8,341,000. This was due to a combination of a $1,168,000 grant for a fire truck, a $5,069,000 grant for the general aviation terminal, a $1,159,000 grant for the entrance road to the general aviation terminal, and a $500,000 ARRA solar grant.

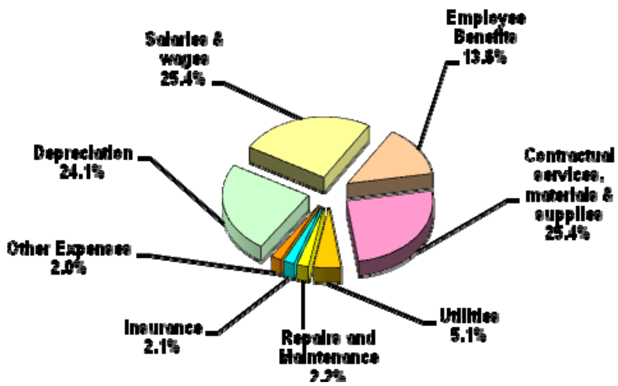
The following charts summarize the Net Revenues and Expenses for fiscal year 2012.

Operating Revenues for Fiscal Year 2012



Operating Revenues	2012	2011	2012 Percent of Total	Increase/ (Decrease) from 2011	% Increase/ (Decrease) from 2011
Signatory Rents	18,932,000	$17,395,000	22.5%	$1,537,000	8.8%
Landing Fees	11,406,000	11,349,000	13.5%	57,000	0.5%
Page Field Fuel Sales	6,182,000	5,267,000	7.3%	915,000	17.4%
Rental Car Facility Charge	3,800,000	3,814,000	4.5%	(14,000)	-0.4%
Fuel Farm Fees	1,790,000	2,159,000	2.1%	(369,000)	-17.1%
Terminal Rentals	1,918,000	1,716,000	2.3%	202,000	11.8%
Rentals & Franchise Fees	5,200,000	5,379,000	6.2%	(179,000)	-3.3%
Rental Cars	16,660,000	17,051,000	19.8%	(391,000)	-2.3%
Parking Lot	11,513,000	12,498,000	13.7%	(984,000)	-7.9%
Terminal Concessions	2,616,000	2,743,000	3.1%	(127,000)	-4.6%
Restaurants & Catering	2,345,000	2,437,000	2.8%	(92,000)	-3.8%
Other Revenues	1,852,000	1,970,000	2.2%	(119,000)	-6.0%
Total Net Operating Revenues	$84,214,000	$83,778,000	100.0%	$436,000	.52%

Operating Expenses for Fiscal Year 2012



Operating Expenses	2012	2011	2012 Percent of Total	Increase/ (Decrease) from 2011	% Increase/ (Decrease) from 2011
Salaries & wages	$20,589,000	$20,029,000	25.4%	$560,000	2.8%
Employee benefits	11,060,000	11,872,000	13.6%	(812,000)	-6.8%
Contractual services, materials & supplies	20,634,000	19,747,000	25.4%	887,000	4.5%
Utilities	4,145,000	4,278,000	5.1%	(133,000)	-3.1%
Repairs and maintenance	1,789,000	1,719,000	2.2%	70,000	4.1%
Insurance	1,732,000	1,725,000	2.1%	7,000	0.4%
Other expenses	1,630,000	1,492,000	2.0%	138,000	9.2%
Depreciation	19,568,000	19,709,000	24.1%	(141,000)	-0.7%
Total Operating Expenses	$81,147,000	$80,571,000	100%	$576,000	0.7%

Passenger Facility Charges

In November 1992, the Port received approval from the Federal Aviation Administration ("FAA") 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 September 2010, the FAA approved a PFC Application for $51,877,000. Projects in the application were all for the Southwest Florida International Airport and include design and construction of a new Fire and Rescue Station, various fire rescue equipment, design and construction of taxiways and apron, design and permitting of the parallel runway, passenger terminal improvements, enhancements to the mitigation park and master planning and noise studies. In September 2012, an amendment to the September 2010 Application was approved and increased that application by $4,612,000. As a result, the total collection authority is $ 301,067,000 with an estimated expiration date of October 1, 2018.

Capital Assets

Capital assets, net of $19,565,000 of depreciation, decreased by $27,388,000 in 2012. Major capital spending in 2012 included $4,821,000 for construction of a new aircraft rescue and fire station, $1,197,000 for design and construction of the apron and $796,000 for the continued conceptual design of the parallel runway.

Capital assets, net of $19,706,000 of depreciation, increased by $3,884,000 in 2011. Major capital spending in 2011 included $7,019,000 for construction of a new aircraft rescue and fire station, $11,117,000 for construction of a general aviation terminal and $983,000 for development of Skyplex.

Table 3 reflects a summary of capital assets for 2012, 2011, and 2010.

Table 3
Capital Assets
September 30, 2012, 2011 and 2010
(000's)

	2012	2011	2010
Land	$132,776	$142,800	$142,800
Easements & Right of Ways	45	47	45
Construction in progress	29,985	29,078	23,034
Buildings	336,717	337,222	328,769
Improvements	18,999	19,087	17,948
Equipment	48,740	48,950	47,683
Software	2,999	2,999	2,999
Artwork	715	713	50
Infrastructure	290,676	289,764	288,437
Subtotal	861,652	870,660	851,765
Less accumulated depreciation and amortization	(199,110)	(180,730)	(165,719)
Total	$662,542	$689,930	$686,046

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

Debt Administration

As of September 30, 2012, the Port had $340,417,000 in outstanding debt, a decrease of $11,075,000. In October 2010, the Airport issued the Series 2010 Passenger Facility Charge Revenue Refunding Note, which refunded the Series 1998 Passenger Facility Charge Bonds. In August 2011, the Airport issued the Series 2011A Airport Revenue Refunding Bonds, which refunded the remaining portion of the Series 2000A Airport Revenue Bonds.

Table 4
Outstanding Debt
September 30, 2012, 2011 and 2010
(000's)

	2012	2011	2010
Series 1998 Passenger Facility Charge Bonds	$ -	$ -	$21,335
Series 2000A Airport Revenue Bonds	-	-	172,575
Series 2002 Airport Revenue Refunding Bonds	-	-	6,580
Series 2005 Airport Revenue Refunding Bonds	37,585	37,625	37,665
Series 2010A Airport Revenue Refunding Bonds	111,730	119,350	119,350
Series 2011A Airport Revenue Refunding Bonds	174,450	174,450	n/a
2004 Line of Credit Note	3,812	4,167	4,507
Series 2010 Passenger Facility Charge Loan	12,840	15,900	n/a
Total	$340,417	$351,492	$362,012

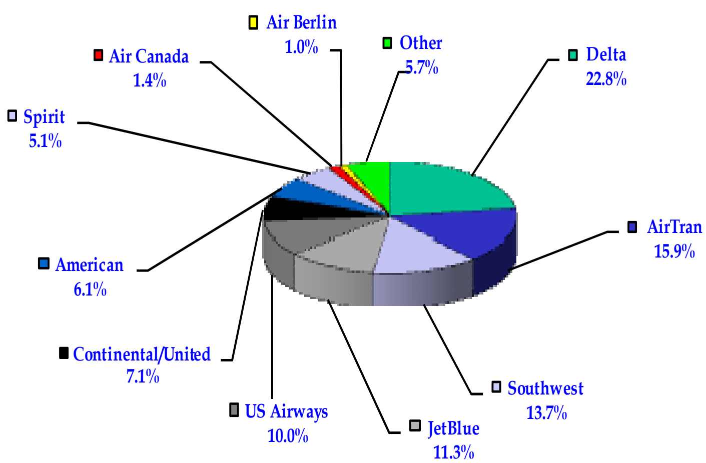
See additional information on the Port's debt in note VI to the financial statements.

Airport Activities

The total passenger count for fiscal year 2012 was 7,277,000, an decrease of 5.09 percent over prior year. Below is a summary of new and increased airline service to Southwest Florida International Airport over the past year.

- American Airlines increased service to Chicago from 3 to 4 weekly (Feb 2012)
- Southwest added daily nonstop service to Hartford and Providence (Feb 2012)
- Vision Airlines started weekly service to Springfield, IL and Rockford, IL (Mar 2012)
- WestJet increased summer service to Toronto over the summer, from 3 to 4 weekly (May 2012)
- JetBlue started daily nonstop service to Laguardia (June 2012)
- Silver Airways started daily nonstop service to Key West (July 2012)

The following chart exhibits the Total Passenger Market Share for the Top Ten Airlines operating at Southwest Florida International Airport during Fiscal Year 2012.



Airline	FY 2012 Market Share	FY 2011 Market Share	% Change
Delta	22.8%	21.0%	8.6%
AirTran	15.9%	17.4%	-8.6%
Southwest	13.7%	12.2%	12.3%
JetBlue	11.3%	11.6%	-2.6%
US Airways	10.0%	9.2%	8.7%
Continental/United	7.1%	7.6%	-6.6%
American	6.1%	5.2%	17.3%
Spirit	5.1%	5.8%	-12.1%
Air Canada	1.4%	1.1%	27.3%
Air Berlin	1.0%	1.1%	-9.1%

Airline Rates and Charges

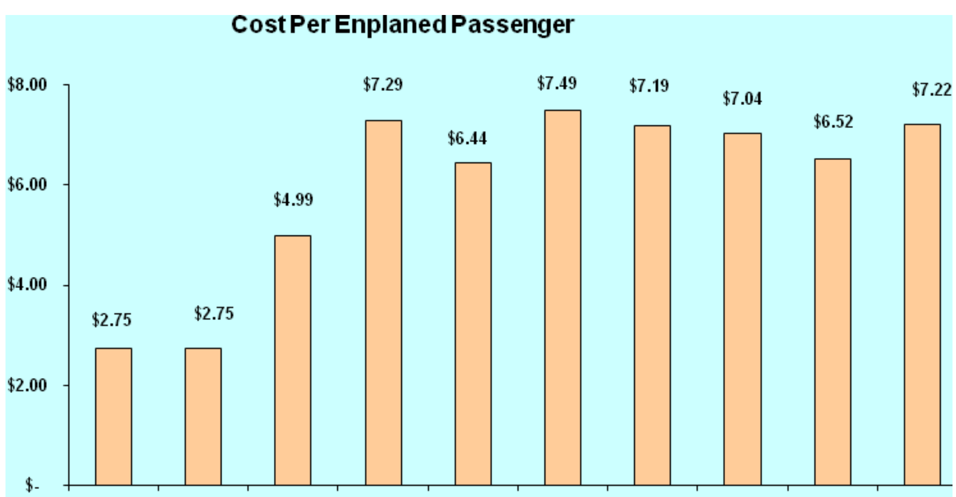
The Port Authority negotiated a new airline use agreement (Airline Airport Lease & Use Agreement) with the Participating Airlines (now referred as Signatory Airlines) with the key terms of the agreement approved by the Board in May 2008. The new Agreement commenced on October 1, 2008 with a five-year term, expiring on September 30, 2013.

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 Majority in Interest approval required for capital projects.

Terminal premises are leased on an exclusive use, preferential use and joint use basis. The Authority will lease certain Terminal premises on a common use basis, as may be necessary. It is the intent of the Authority to manage its Terminal facilities in an efficient manner, while also respecting the schedules of its airline parties. Ticket counters, offices, operations areas, and baggage make-up facilities will be leased on an exclusive use basis. Gates/holdrooms and aircraft parking positions will be leased on a preferential use basis. Baggage claim will be leased on a joint use basis, with costs allocated to the Signatory Airlines based on twenty percent (20%) allocated to all Signatory Airlines equally, and eighty percent (80%) allocated to all Signatory Airlines based on the ratio of each Signatory Airline's enplaned passengers annually at the Airport.

Landing Fees are calculated using a "residual" Airfield Cost Center approach and will be based upon the total landed weight for all airline groups (Signatory, non-Signatory, Cargo, Charter, and International). Terminal Rents are calculated using a commercial compensatory method (i.e., rentable square foot divisor). Charges for the leasing of all Terminal space will be assessed on a square-footage basis. In fiscal year 2012, the Signatory Airlines paid the Port Authority $24,470,000. This amount is net of refunds of $838,000 and revenue sharing of $2,546,000.

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

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Lee County Port Authority

Lee County, Florida

STATEMENTS OF NET ASSETS

As of September 30, 2012 and 2011

(amounts expressed in thousands)

	2012	2011
ASSETS		
Current assets:		
Cash and equity in pooled cash and investments	$ 97,064	$ 100,649
Investments	10,401	10,475
Restricted assets	16,321	11,538
Receivables (net):		
Accounts	4,754	3,768
Accrued interest	2	-
Grants	2,970	2,704
Inventories	173	153
Other	1,021	924
Total current assets	132,706	130,211
Noncurrent assets:		
Restricted assets	73,144	66,716
Capital assets (net)	662,542	689,930
Intangible assets	10	13
Unamortized bond costs	3,596	3,869
Total noncurrent assets	739,292	760,528
Total assets	871,998	890,739
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	6,783	8,768
Accrued liabilities	758	1,475
Refunds and rebates	3,384	7,041
Due to Board of County Commissioners	46	235
Due to other governments	375	468
Customer deposits	1,052	470
Deferred revenues	446	847
Compensated absences	1,038	981
Notes payable	375	355
Current liabilities payable from restricted assets		
Accrued liabilities	8,426	3,878
Revenue bonds payable	7,521	7,273
Total current liabilities	30,204	31,791
Noncurrent liabilities:		
Compensated absences	457	431
Notes payable	16,277	19,712
Revenue bonds payable	309,831	317,352
Due to Board of County Commissioners	115	141
Accrued liabilities	14,207	11,561
Total noncurrent liabilities	340,887	349,197
Total liabilities	371,091	380,988
NET ASSETS		
Invested in capital assets, net of related debt	353,539	369,207
Restricted for:		
Capital Projects	42,470	36,010
Debt service	7,895	7,823
Renewal and Replacement	500	500
Unrestricted	96,503	96,211
Total Net Assets	$ 500,907	$ 509,751

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, 2012 and 2011

(amounts expressed in thousands)

	2012	2011
OPERATING REVENUES		
User fees	$ 47,283	$ 46,837
Rentals	5,200	5,379
Concessions	5,956	6,205
Parking Revenues	11,513	12,498
Rental Car Revenues	16,660	17,051
Miscellaneous	148	169
Total operating revenues	86,760	88,139
Less: Rebates	(2,546)	(4,361)
Net operating revenues	84,214	83,778
OPERATING EXPENSES		
Salaries and wages	20,589	20,029
Employee benefits	11,060	11,872
Contractual services, materials and supplies	20,634	19,747
Utilities	4,145	4,278
Repairs and maintenance	1,789	1,719
Insurance	1,732	1,725
Other	1,630	1,492
Depreciation and amortization	19,568	19,709
Total operating expenses	81,147	80,571
Operating income	3,067	3,207
NON-OPERATING REVENUES (EXPENSES):		
Investment earnings	530	471
Interest expense	(17,576)	(18,882)
Grants	409	408
Loss on disposal of capital assets	(278)	(183)
Passenger facility charges	14,775	15,582
Other revenues	3	39
Other expenses	(1)	(1)
Total non-operating revenues (expenses)	(2,138)	(2,566)
Income before capital contributions and special item	929	641
Capital contributions	7,173	16,135
Special item: loss on discontinued project	(16,946)	-
Change in net assets	(8,844)	16,776
Total net assets- beginning	509,751	492,975
Total net assets - ending	$ 500,907	$ 509,751

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, 2012 and 2011

(amounts expressed in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 79,206	$ 84,921
Cash received from customer deposits	623	147
Cash returned from customer deposits	(42)	(260)
Other cash receipts	3	39
Payments to suppliers	(31,323)	(23,226)
Payments to employees	(29,595)	(31,725)
Net cash provided by operating activities	18,872	29,896
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	456	349
Net cash provided by noncapital financing activities	456	349
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	670
Capital contributions	6,860	14,854
Proceeds from passenger facilities charges	14,710	15,512
Additions to capital assets	(10,220)	(23,422)
Principal paid on bonds, loans, and leases	(11,102)	(12,496)
Interest paid on bonds, loans, and leases	(12,671)	(22,484)
Transfer to refunding escrow agent	-	(11)
Proceeds from sale of capital assets	86	189
Net cash used in capital and related financing activities	(12,337)	(27,188)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	36,276	78,157
Purchase of investments	(34,922)	(68,063)
Interest on investments	582	509
Net cash provided by investing activities	1,936	10,603
Net increase in cash and cash equivalents	8,927	13,660
Cash and equivalents at beginning of year	150,515	136,855
Cash and equivalents at end of year	$ 159,442	$ 150,515
Classified as:		
Current assets		
Cash and equity in pooled cash and investments	$ 97,064	$ 100,649
Restricted assets	16,321	11,538
Non-current assets		
Restricted assets	46,057	38,328
Totals	$ 159,442	$ 150,515

Lee County Port Authority

Lee County, Florida

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2012 and 2011

(amounts expressed in thousands)

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 3,067	$ 3,207
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	19,568	19,709
Other revenues	3	39
(Increase) decrease in accounts receivable	(952)	885
Decrease in due from other governments	(2)	2
(Increase) decrease in inventories	(20)	(29)
Decrease in other assets	(96)	6
Increase (decrease) in contracts and accounts payable	(952)	2,635
Increase in accrued liabilities	1,929	2,999
Increase in refunds and rebates	(3,656)	54
Increase in due to Board of County Commissioners	(189)	165
Increase in due to other governments	(92)	110
Decrease in customer deposits	581	(113)
Increase (decrease) in deferred revenues	(400)	204
Increase in compensated absences	83	23
Total adjustments	15,805	26,689
Net cash provided by operating activities	$ 18,872	$ 29,896
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Contributions of property, plant, and equipment	$ 17	$ -
Donations of property, plant, and equipment	(16,950)	
Increase in fair value of investments	67	66
Airport Revenue Refunding, Series 2011A issuance cost paid from bond proceeds		1,887
Airport Revenue Refunding, Series 2011A bond proceeds deposited directly into an irrevocable trust		177,782
Passenger Facility Charge Revenue & Refunding loan proceeds deposited directly into an irrevocable trust		18,848

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 County's Department of Airports (including Page Field General Aviation Airport and the Southwest Florida International Airport, "the SWFIA") to the Port Authority. Although the Board retained ownership of the Port Authority's assets and liabilities, all of 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 332.08, *Florida Statutes*, Lee County Resolution Number 87-8-9, and subsequently, Lee County Ordinance Number 90-02, subsequently amended and restated as Lee County Ordinance Number 01-14.

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, a citizen's advisory board, 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.

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 of items for resale, 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.

Deferred Revenues

Deferred revenues represent revenues collected in advance of services performed and will be recognized when the services are rendered.

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 is 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.

User Fees

User fees are generated from airlines' signatory and non-signatory leases with the Port Authority and include landing fees and rents. Also in this category are gross fuel sales from Page Field.

Rentals and Franchise Fees

Revenues from this category include rental car revenues paid to the Airport, gross parking lot revenues, and terminal concession payments to the Airport.

Capital Contributions

Capital contributions consist mainly of grants from Federal and State agencies. They are recognized as earned as related project costs are incurred.

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.

NOTE II. RECEIVABLES

At September 30, 2012 and 2011, accounts receivable consisted of the following (dollars in thousands):

		Gross Accounts Receivable	Allowance for Doubtful Accounts	Net Accounts Receivable
2012	Unrestricted	$5,004	($250)	$4,754
	Restricted	2,157		2,157
	Total	$7,161	($250)	$6,911
2011	Unrestricted	$4,018	($250)	$3,768
	Restricted	2,126		2,126
	Total	$6,144	($250)	$5,894

NOTE III. RESTRICTED ASSETS

At September 30, 2012 and 2011, restricted assets consisted of the following (dollars in thousands):

	2012	2011
Cash and equity in pooled cash and investments	$46,057	$38,328
Cash and cash equivalents with fiscal agent	16,321	11,538
Investments	24,928	26,211
Receivables (net):		
Accounts	2,157	2,126
Accrued interest	2	51
Total	$ 89,465	$78,254

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

As of September 30, 2012 and 2011, the Port Authority had the following deposits, investments, and maturities (amounts in thousands):

2012

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$ 104			N/A
Cash with fiscal agent	N/A	16,321			N/A
Demand deposits	N/A	41,417			N/A
SBA-Local Government Surplus Funds Trust Fund Investment Pool-Florida PRIME	39 days	101,625			AAAm
Fund B Surplus Funds Trust Fund	4.08 years	380			Unrated
Federal Home Loan Mortgage Corporation	03/28/13	24,849			AA+
Federal National Mortgage Association	09/23/13	10,075			AA+
Total		$194,771			

2011

Investment	Maturities	Fair Value	Call Date	Call Frequency	Rating
Cash on hand	N/A	$ 37			N/A
Cash with fiscal agent	N/A	11,538			N/A
Demand deposits	N/A	36,188			N/A
SBA-Local Government Surplus Funds Trust Fund Investment Pool-Florida PRIME	38 days	102,860			AAAm
Fund B Surplus Funds Trust Fund	4.82 years	368			Unrated
Federal Home Loan Mortgage Corporation Discount Note	03/06/2012	9,999	N/A	N/A	N/A
Federal Home Loan Bank	02/22/2012	26,211	N/A	N/A	AA+
Total		$187,201			

Fund B 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, 2012 was .94896811.

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; 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 that is exempt from federal income taxation and that is 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. 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, 2012, 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, 2012 and 2011, was $917,813,000 and $1,028,089,000, respectively. The portion of the Port Authority's portfolio invested in Federal instrumentalities is detailed as follows, at September 30, 2012 and 2011:

2012

Issuer	Percent of Total Portfolio
Federal Home Loan Mortgage Corporation	2.71%
Federal National Mortgage Association	1.1%
Total Federal Instrumentalities	3.81%

2011

Issuer	Percent of Total Portfolio
Federal Home Loan Mortgage Corporation	0.97%
Federal Home Loan Bank	2.55%
Total Federal Instrumentalities	3.52%

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

2012

Current:	
Cash and cash equivalents	$97,064
Investments	10,401
Restricted:	
Cash with fiscal agent	16,321
Non-current:	
Restricted:	
Cash and cash equivalents	46,057
Investments	24,928
Total	$194,771

2011

Current:	
Cash and cash equivalents	$100,649
Investments	10,475
Restricted:	
Cash with fiscal agent	11,538
Non-current:	
Restricted:	
Cash and cash equivalents	38,328
Investments	26,211
Total	$187,201

NOTE V. CAPITAL ASSETS

Increases and decreases in capital asset activity include transfers. Capital asset activity for the fiscal years ended September 30, 2012 and 2011, was as follows (dollars in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Fiscal Year 2012				
Capital assets not being depreciated:				
Land	$ 142,800	$ 130	$ (10,154)	$ 132,776
Easement & Right of Ways	47	-	(2)	45
Construction in progress	29,078	8,835	(7,928)	29,985
Artwork	713	2	-	715
Total capital assets not being depreciated	172,638	8,967	(18,084)	163,521
Capital assets being depreciated:				
Buildings	337,222	54	(559)	336,717
Improvements other than buildings	19,087	10	(98)	18,999
Machinery and equipment	48,950	693	(903)	48,740
Software	2,999	-	-	2,999
Infrastructure	289,764	912	-	290,676
Total capital assets being depreciated	698,022	1,669	(1,560)	698,131
Less accumulated depreciation for:				
Buildings	49,930	6,819	(231)	56,518
Improvements other than buildings	8,633	1,160	(67)	9,726
Machinery and equipment	21,058	3,157	(887)	23,328
Software	2,835	66	-	2,901
Infrastructure	98,274	8,363	-	106,637
Total accumulated depreciation	180,730	19,565	(1,185)	199,110
Total capital assets being depreciated, net	517,292	(17,896)	(375)	499,021
Capital assets, net	$ 689,930	$ (8,929)	$ (18,459)	$ 662,542
Fiscal Year 2011				
Capital assets not being depreciated:				
Land	$ 142,800	$ -	$ -	$ 142,800
Easement & Right of Ways	45	2	-	47
Construction in progress	23,034	21,521	(15,477)	29,078
Artwork	50	663	-	713
Total capital assets not being depreciated	165,929	22,186	(15,477)	172,638
Capital assets being depreciated:				
Buildings	328,769	8,522	(69)	337,222
Improvements other than buildings	17,948	1,139	-	19,087
Machinery and equipment	47,683	5,795	(4,528)	48,950
Software	2,999	-	-	2,999
Infrastructure	288,437	2,087	(760)	289,764
Total capital assets being depreciated	685,836	17,543	(5,357)	698,022
Less accumulated depreciation for:				
Buildings	43,287	6,712	(69)	49,930
Improvements other than buildings	7,540	1,093	-	8,633
Machinery and equipment	21,860	3,160	(3,962)	21,058
Software	2,662	173	-	2,835
Infrastructure	90,370	8,568	(664)	98,274
Total accumulated depreciation	165,719	19,706	(4,695)	180,730
Total capital assets being depreciated, net	520,117	(2,163)	(662)	517,292
Capital assets, net	$ 686,046	$ 20,023	$ (16,139)	$ 689,930

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 offset against interest subject to capitalization. Net interest expense capitalized for the years ended September 30, 2012 and September 30, 2011, was $301,000 and $331,000, 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, 2012, minimum future rentals of operating leases were as follows (dollars in thousands):

Fiscal Year(s)	Amount
2013	$ 40,443
2014	25,887
2015	25,890
2016	25,223
2017	25,210
Later years	68,942
Total minimum future revenue	$211,595

For the years ended September 30, 2012 and 2011, $4,819,000 and $5,407,000, 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, 2012 and 2011, consisted of the following:

- 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, 2012 and 2011, was $37,585,000 and $37,625,000, respectively.

- Series 2010A Airport Revenue Refunding Bonds, for $119,350,000 at interest rates ranging from 3 percent to 5.5 percent (effective interest rate of 5.48 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2012 and 2011 was $111,730,000 and $119,350,000, respectively.

- Series 2011A (AMT) Airport Revenue Refunding Bonds, for $174,450,000 at interest rates ranging from 3 percent to 5.63 percent (effective interest rate of 5.64 percent), collateralized by a lien on and a pledge of net revenues of the SWFIA. The outstanding balance at September 30, 2012 and 2011 was $174,450,000.

The total revenue bonds payable at September 30, 2012 and 2011, were $323,765,000 and $331,425,000, respectively.

The annual debt service requirements for revenue bonds at September 30, 2012, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2013	$7,895	$16,655	$24,550
2014	8,470	16,249	24,719
2015	8,900	15,818	24,718
2016	9,330	15,365	24,695
2017	9,800	14,891	24,691
2018-2022	56,975	66,221	123,196
2023-2027	75,615	49,094	124,709
2028-2032	98,830	25,881	124,711
2033-2034	47,950	2,467	50,417
Total	**$323,765**	**$222,641**	**$546,406**

The following is a summary of bond activity of the Port Authority for the years ended September 30, 2012 and 2011 (dollars in thousands):

	2012	2011
Beginning balance	$331,425	$357,505
Additions	-	174,450
Reduction	(7,660)	(200,530)
Bonds payable at end of fiscal year	323,765	331,425
Plus unamortized premium (discount)	4,297	4,791
Less unamortized refunding loss	(10,710)	(11,591)
Bonds payable at end of fiscal year, net	$317,352	$324,625

Bond Resolutions

The Airport Revenue Bonds, Series 2005, the Airport Revenue Refunding Bonds, Series 2010A, and the Airport Revenue Refunding Bonds, Series 2011A (AMT) 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 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:
- Airport Revenue Refunding Bonds, Series 2005
- Airport Revenue Refunding Bonds, Series 2010A
- Airport Revenue Refunding Bonds, Series 2011A (AMT)

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, 2012 and 2011, consisted of the following (dollars in thousands):

	2012	2011
Airport Revenue Bonds, Series 2000A	$ -	$172,575
Total outstanding	$ -	$172,575

Notes Payable

Line of Credit

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 .88 percent as of September 30, 2012. 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, 2012 and 2011, was $3,812,000 and $4,167,000, respectively. The available balance at September 30, 2012 and 2011, was $6,188,000 and $5,833,000, respectively.

The annual debt service requirements for the Port's variable rate note payable at September 30, 2012, based on the variable interest rate in effect on that date, were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2013	$375	$33	$408
2014	395	29	424
2015	415	26	441
2016	435	23	458
2017	455	19	474
2018-2021	1,737	32	1,769
Total	$3,812	$162	$3,974

The following is a summary of variable rate note payable activity of the Port Authority for the years ended September 30, 2012 and 2011 (dollars in thousands):

	2012	2011
Beginning balance	$4,167	$4,507
Additions (Deletions)	(355)	(340)
Variable debt payable at end of fiscal year	$3,812	$4,167

PFC Note Payable

The Port Authority has entered into an $18,790,000 loan agreement with a commercial bank to refund its Passenger Facility Charge Revenue and Refunding Bonds, Series 1998. The loan is collateralized by a lien on and a pledge of the passenger facility charge revenues. Interest is payable semi-annually at an interest rate of 1.91 percent. Principal is payable annually starting on October 1, 2011, and maturing on October 1, 2016. The outstanding balance at September 30, 2012 and 2011, was $12,840,000 and $15,900,000, respectively.

The annual debt service requirements for the Port's PFC note payable at September 30, 2012 were as follows (dollars in thousands):

Fiscal Year(s)	Principal	Interest	Total
2013	$ -	$122	$122
2014	3,120	215	3,335
2015	3,180	155	3,335
2016	3,240	94	3,334
2017	3,300	31	3,331
Total	$12,840	$617	$13,457

Operating Leases

The Port Authority is not currently committed to any operating leases with terms in excess of one year. All terms are month to month; thereby there are no future minimum rental payments as of September 30, 2012. The total rental expense for all operating leases, including those with terms of less than one year, for the years ended September 30, 2012 and 2011, was $112,000 and $147,000, respectively.

Compensated Absences

The following is a summary of compensated absences activity for the Port Authority for the years ended September 30, 2011 and 2010 (dollars in thousands):

	2012	2011
Beginning balance	$1,412	$1,389
Additions	2,570	2,088
Reductions	(2,487)	(2,065)
Compensated absences payable at end of fiscal year	$1,495	$1,412

Of the $1,495,000 balance at September 30, 2012, $1,038,000 is due within one year.

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	
	2012	2011	2012	2011
Condensed Statements of Net Assets				
Assets				
Current assets	$ 85,859	$ 91,222	$ 8,802	$ 7,645
Restricted assets	50,058	45,448	0	-
Capital assets	595,186	613,759	54,242	55,824
Other assets	3,570	3,830	-	-
Total assets	734,673	754,259	63,044	63,469
Liabilities				
Current liabilities	12,923	17,992	1,043	1,556
Current liabilities payable from restricted assets	16,340	11,182	375	355
Noncurrent liabilities	323,339	328,348	4,747	5,012
Total liabilities	352,602	357,522	6,165	6,923
Net assets				
Invested in capital assets, net of related debt	302,876	314,095	50,316	50,644
Restricted	15,171	14,997	-	-
Unrestricted	64,024	67,645	6,563	5,902
Total net assets	$ 382,071	$ 396,737	$ 56,879	$ 56,546
Condensed Statements of Revenues, Expenses, and Changes in Net Assets				
Operating revenues				
User fees	$ 40,900	$ 41,399	$ 6,383	$ 5,439
Rentals	2,847	3,027	2,352	2,352
Concessions	34,043	35,701	87	53
Miscellaneous	139	124	9	7
Less: Rebates	(2,546)	(4,361)	-	-
Total operating revenues	75,383	75,890	8,831	7,851
Operating expenses				
Depreciation	17,178	17,759	2,390	1,950
Other operating expenses	51,881	52,590	8,508	7,786
Total operating expenses	69,059	70,349	10,898	9,736
Operating income (loss)	6,324	5,541	(2,067)	(1,885)

NOTE VII: SEGMENT INFORMATION (continued)

	Southwest Florida International Airport		Page Field General Aviation Airport	
	2012	2011	2012	2011
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (continued)				
Non-operating revenues (expenses)				
Investment earnings	$ 341	$ 329	$ 21	$ 24
Interest expense	(17,414)	(18,592)	27	10
Other non-operating	462	331	(359)	(70)
Total non-operating revenues (expenses)	(16,611)	(17,932)	(311)	(36)
Loss before capital contributions	(10,287)	(12,391)	(2,378)	(1,921)
Capital Contributions	5,631	7,200	1,511	7,030
Transfers	(10,010)	(46)	1,200	2,109
Change in net assets	(14,666)	(5,237)	333	7,218
Beginning net assets	396,737	401,974	56,546	49,328
Ending net assets	$ 382,071	$ 396,737	$ 56,879	$ 56,546
Condensed Statements of Cash Flows				
Net cash provided (used) by:				
Operating activities	$ 19,843	$ 28,588	$ 815	$ 308
Noncapital financing activities	(9,515)	(1,546)	(1)	2,109
Capital and related financing activities	(13,417)	(28,770)	233	(4,759)
Investing activities	1,751	341	21	24
Net increase (decrease)	(1,338)	(1,387)	1,068	(2,318)
Beginning cash and cash equivalents	102,039	103,426	6,879	9,197
Ending cash and cash equivalents	$ 100,701	$ 102,039	$ 7,947	$ 6,879

Certain funds that relate to activities at both the Southwest Florida International Airport and Page Field are not included in the segmented statements, including the K-9 donation fund and the discretionary fund. In addition, all of the funds related to the passenger facility charges are omitted from the segmented statements.

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 FRS is contributory and is administered by the State of Florida.

Benefits under the Pension Plan vest after six years of service for members who joined FRS prior to July 1, 2011, and vest after eight years for members who first joined FRS on or after July 1, 2011. Employees who joined FRS prior to July 1, 2011, and 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. Employees who joined FRS on or after July 1, 2011, and retire at or after age 65 with eight years of credited service, or 33 years of service regardless of age, are entitled to receive 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 FRS offers several other plan and/or investment options that may be elected by the employee. Each offers specific contribution and benefit options. The FRS plan documents should be referenced for complete details of these options and benefits.

A 3 percent employee contribution is required as of July 1, 2011. Pension costs for the Port Authority as required and defined by State statute ranged between 4.91 percent and 14.90 percent of gross salaries for fiscal year 2012. For fiscal years ended September 30, 2012, 2011, and 2010, the Port Authority contributed 100 percent of the required contributions. These contributions aggregated $1.5 million, $2.5 million, and $2.6 million, respectively, which represents 8 percent, 12 percent, and 13 percent, of covered payroll.

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 for members of FRS, effective July 1, 1998. Under this program, 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 (in the same amount determined at retirement, plus annual cost-of-living increases).

A copy of the FRS's annual report can be obtained by writing to the Florida Department of Management Services - Division of Retirement, PO Box 9000, Tallahassee, Florida 32315-9000, or by calling (850) 488-5706.

Other Postemployment Benefits

The Port Authority provides post-retirement health care benefits, through participation in the County's self-funded insurance plan, to all employees who retire from the Port Authority. In accordance with Chapter 110.123, *Florida Statutes,* the Port Authority is required to provide group health care at cost to all retirees. For employees hired on or before January 01, 2008, the Port Authority 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 Authority 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 $2,646,000 and $2,942,000 for 2012 and 2011, respectively, are based on the Port Authority's percentage of employees relative to the County as a whole, multiplied by the County's total postemployment benefit expense. For fiscal years ended September 30, 2012 and 2011, the Other Postemployment Benefits liability totaled $14,207,000 and $11,561,000, respectively, and is included in accrued liabilities on the accompanying Statements of Net Assets.

NOTE IX. RISK MANAGEMENT

The Port Authority has been a member of Public Risk Management of Florida ("PRM"), a local government liability risk pool, since it was established in 1989. During that time, all property and casualty insurance lines were purchased through PRM. Following the move to the new terminal, the Port Authority, with the assistance of its insurance consultant and broker, concluded that there was a potential for an improved overall insurance program that would provide substantial savings. The Port Authority subsequently terminated its membership with PRM effective March 31, 2009.

The Port Authority then directed its broker, Arthur J. Gallagher, to solicit quotations on property and casualty coverage for the next renewal period. All lines of insurance costs for 2012 and 2011 were $1,732,000 and $1,725,000, respectively.

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, 2012 and 2011, the Port Authority was charged $5,149,000 and $4,740,000, 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.

NOTE X. COMMITMENTS AND CONTINGENCIES

At September 30, 2012 and 2011, the Port Authority had in process various construction contracts totaling $81,660,000 and $47,103,000, respectively. Costs incurred on these contracts as of September 30, 2012 and 2011, totaled $36,102,000 and $40,435,000, respectively, including retainage payable of $584,000 and $1,305,000, 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) may be offset by any negative arbitrage (non-liability). These rebates constitute a liability of the Port Authority, which is reported as other noncurrent liabilities.

NOTE XI. SPECIAL ITEM – LOSS ON DISCONTINUED PROJECTS

On January 9, 2012, the Board of Port Commissioners approved a deed of release from the Federal Aviation Administration to the Florida Department of Transportation ("FDOT") of land purchased specifically by the Port Authority for a direct connector road between SWFIA and I-75. Subsequently, the FDOT has agreed to fund, construct, and provide perpetual maintenance for the direct connection between I-75 and SWFIA. The purchase price of the land was $10,151,000. In addition, SWFIA incurred $6,146,000 in design and permitting costs for the connector road. The FDOT is utilizing the resulting plans and permits to expedite the construction. The transaction closed on May 18, 2012 and a loss was recognized in the amount of $16,297,000. The FDOT began construction on October 20, 2012.

In addition, in fiscal year 2012, a loss for $649,000 was recognized related to conceptual design costs incurred on a SWFIA terminal expansion project. The project has been postponed indefinitely.

NOTE XII. PASSENGER FACILITY CHARGE

In November 1992, the Port received approval from the Federal Aviation Administration ("FAA") 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 September 2010, the FAA approved a PFC Application for $51,877,000. Projects in the application were all for the Southwest Florida International Airport and include design and construction of a new Fire and Rescue Station, various fire rescue equipment, design and construction of taxiways and apron, design and permitting of the parallel runway, passenger terminal improvements, enhancements to the mitigation park, and master planning and noise studies.

In June 2011, an amendment to Application #6 was approved and reduced that application by $2,086,000. As a result, the total collection authority was $296,455,000 with an estimated expiration date of May 1, 2018, as amended below.

In September 2012, an amendment to Application #7 was approved and increased that application by $4,612,000. As a result, the total collection authority is $301,067,000 with an estimated expiration date of October 1, 2018.

NOTE XIII. AIRLINE USE AGREEMENTS

Signatory Airlines

The Port Authority negotiated a new airline use agreement ("Airline Airport Lease & Use Agreement") with the Participating Airlines (now referred as "Signatory Airlines") with the key terms of the agreement approved by the Board in May 2008. The new Agreement commenced on October 1, 2008 with a five-year term, expiring on September 30, 2013.

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 majority-in-interest approval required for capital projects.

Refunds/Rebates are generated from settlement with the Airlines and the revenue sharing component of the Airline Airport Lease & Use Agreement.

Terminal premises are leased on an exclusive use, preferential use, and joint use basis. The Authority will lease certain Terminal premises on a common use basis, as may be necessary. It is the intent of the Authority to manage its Terminal facilities in an efficient manner, while also respecting the schedules of its airline parties. Ticket counters, offices, operations areas, and baggage make-up facilities are leased on an exclusive use basis. Gates/holdrooms and aircraft parking positions are leased on a preferential use basis. Baggage claim is leased on a joint use basis, with costs allocated to the Signatory Airlines based on twenty percent (20%) allocated to all Signatory Airlines equally, and eighty percent (80%) allocated to all Signatory Airlines based on the ratio of each Signatory Airline's annual enplaned passengers at the Airport.

Landing Fees are calculated using a "residual" Airfield Cost Center approach and are based upon the total landed weight for all airline groups (Signatory, non-Signatory, Cargo, Charter, and International). Terminal Rents are calculated using a commercial compensatory method (i.e., rentable square foot divisor). Charges for the leasing of all Terminal space are assessed on a square-footage basis.

In fiscal year 2012 and 2011, the signatory airlines paid the Port Authority $24,470,000 and 2,992,000, respectively. These amounts are net of refunds of $2,680,000 and $838,000, respectively, and revenue sharing of $3,584,000 and $2,546,000, 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 Signatory Airlines. Nonparticipating airlines are assessed fees no less than those paid by the Signatory Airlines and do not share in any rebates.

Airline Bankruptcies

American Airlines declared bankruptcy on November 29, 2011. American Airlines is a Signatory Airline with an average of four daily flights. The Port Authority expects a minimal effect on its operations due to the bankruptcy declaration, and expect no change in the terms of the airline use agreement that expires September 30, 2013.

NOTE XIV. OTHER

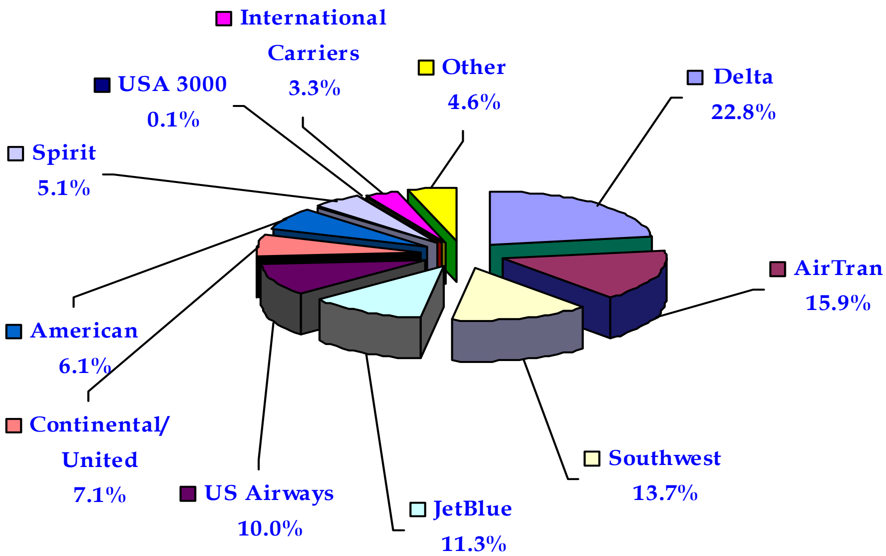
Litigation

The Port Authority is involved in ongoing litigation arising in the ordinary course of operations. It is 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

Airline Market Share and Passenger Information
For the Fiscal Year Ended September 30, 2012
(unaudited)

Total passenger traffic is shown below for fiscal year 2012 showing market share for each major airline at Southwest Florida International Airport.



Airline	2012	2011	Change from 2011	% Change from 2011
Delta	1,656,000	1,613,000	43,000	2.67%
Air Tran	1,155,000	1,336,000	(181,000)	-13.55%
Southwest	995,000	934,000	61,000	6.53%
JetBlue	820,000	889,000	(69,000)	-7.76%
US Airways	730,000	708,000	22,000	3.11%
Continental/United	515,000	579,000	(64,000)	-11.05%
American	446,000	396,000	50,000	12.63%
Spirit	372,000	443,000	(71,000)	-16.03%
USA 3000	9,000	83,000	(74,000)	-89.16%
International Carriers	242,000	237,000	5,000	2.11%
Other*	337,000	450,000	(113,000)	-25.11%
Total	7,277,000	7,668,000	(391,000)	-5.10%

* Represents all domestic carriers with less than a 5% market share.