

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
PANAMA CITY, FLORIDA
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**



Tipton, Marler, Garner & Chastain
The CPA Group

PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
PANAMA CITY, FLORIDA
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Panama City - Bay County
Airport and Industrial District
Panama City, Florida

We have audited the accompanying financial statements of the Panama City - Bay County Airport and Industrial District, as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Panama City - Bay County Airport and Industrial District'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 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 respective financial position of the Panama City - Bay County Airport and Industrial District as of September 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years 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 January 10, 2012, on our consideration of the Panama City - Bay County Airport and Industrial District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 the 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 should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 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 audits were conducted for the purpose of forming an opinion on the financial statements. The accompanying supplemental schedules, the schedule of expenditures of federal awards, state financial assistance and passenger facility charges, as listed in the table of contents, are presented for purposes of additional analysis as required by Section 215.97, Florida Statutes, and as specified in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration and are not a required part of the basic financial statements of the Panama City - Bay County Airport and Industrial District. The accompanying supplemental schedules and the schedule of expenditures of federal awards, state financial assistance and passenger facility charges are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jipton, Marler, Garner & Chastain, CPAs

Panama City, Florida
January 10, 2012

**PANAMA CITY-BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Management's discussion and analysis provides an objective and easily readable analysis of the District's financial activities. The analysis provides summary financial information for the District, and should be read in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Total assets of the District exceeded total liabilities by \$272,594,686 (net assets). Of this amount, \$1,749,568 is restricted for debt service, and \$3,524,194 is unrestricted.
- Total net assets decreased by \$9,977,611. Of this amount, \$975,501 is attributable to grant-funded projects, with a decrease of \$10,953,112 attributable to the business-type activities of the District.
- Operating revenues increased by \$2,778,075, or 51.63 percent, over prior year operating revenues. Operating expenses increased by \$8,768,828, or 86.71 percent, over prior year operating expenses.
- An increase in passenger traffic resulted in an increase of \$587,367, or 55.43 percent, over prior year PFC revenues.

BRIEF DISCUSSION OF BASIC FINANCIAL STATEMENTS

This annual report consists of a series of financial statements.

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues and Expenses and Changes in Net Assets report information about the District and about its activities in a way that helps answer this question.

These two statements report the District's net assets and changes in them. The District's net assets – the difference between assets and liabilities – is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

Since the District charges a fee to tenants and concessionaires to cover the costs of the services it provides, the District records its activities in one proprietary fund. Proprietary funds are reported using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Under this method of accounting, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS

The following schedule provides a summary of the assets, liabilities and net assets of the District for the current and prior years.

Table 1
Net Assets

	2011	2010
Current and other assets	\$ 8,898,377	\$ 17,451,575
Capital assets	<u>364,246,739</u>	<u>358,600,651</u>
Total assets	<u>373,145,116</u>	<u>376,052,226</u>
Long-term debt outstanding	45,000,000	34,530,258
Other liabilities	<u>55,550,430</u>	<u>58,949,671</u>
Total liabilities	<u>100,550,430</u>	<u>93,479,929</u>
Net assets:		
Invested in capital assets, net of debt	267,320,924	274,486,838
Restricted	1,749,568	1,390,676
Unrestricted	<u>3,524,194</u>	<u>6,694,783</u>
Total net assets	<u>\$ 272,594,686</u>	<u>\$282,572,297</u>

Investment in capital assets (e.g., land, buildings, and equipment), net of any related outstanding debt used to acquire those assets, represents the District's largest portion of net assets. These capital assets are utilized to provide services to the public; consequently, these assets are not available for future spending.

ANALYSIS OF BALANCES AND TRANSACTIONS

Unrestricted net assets decreased by \$3,170,589. This is a result of depreciation, which reduces our net capital assets, and to the use of prior year accounts receivables to fund continuing portions of the relocation project.

BUDGETARY ANALYSIS

As an independent special district, the District must adopt a budget each fiscal year. This adopted budget must regulate expenditures of the special district. It is unlawful for the District to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations.

No budget amendments were made during the course of the year.

Actual expenses exceeded budget by \$12,009,591, due to depreciation expense and relocation costs under the URA which were not budgeted.

Actual operating revenues exceeded budget by \$118,778, due to greater than anticipated passenger traffic, resulting in larger than budgeted airline and concession revenues.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets

At September 30, 2011, the District had \$404,005,330 invested in a broad range of capital assets, including buildings, police and fire equipment, maintenance equipment and vehicles. (See Table 3). This amount represents a net increase (including additions and deductions) of \$17,629,535 or 4.56 percent, over last year.

Table 3
Capital Assets at Year-end

	2011	2010
Land	\$ 71,225,346	\$ 66,732,233
Buildings and improvements	191,212,520	182,129,675
Improvements other than buildings	123,410,912	118,237,724
Furniture and equipment	6,912,714	6,880,085
Construction work-in-progress	11,243,838	12,396,078
Totals	<u>\$404,005,330</u>	<u>\$386,375,795</u>

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Fiscal year 2011 represented the first full year of operations at the new airport. The airport opened on May 23, 2010 with increased flights, improved competition and lower air fares. Passenger volumes during FY 2011 produced record-setting increases and improved our market share in the Panhandle region from 9.1% to over 22%. As we close out the first full fiscal year of operation, the airport is poised to move ahead with a sound financial structure.

To accomplish this, several goals have been set, and are nearing achievement:

1. The District is close to signing new Airline Operating Agreements with both Delta and Southwest, which provide for increased landing fee and rental revenues. These new rates and charges went into effect on October 1, 2011.
2. The District has issued closing notice on the sale of the old airport, and is optimistic that the sale will close in early 2012, allowing repayment of the Region's Bank \$51 million loan.
3. The District is developing strategies to improve cash flow to provide appropriate cash reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administration, Northwest Florida Beaches International Airport, 6300 West Bay Parkway, Panama City Beach, Florida 32409.

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LIABILITIES AND NET ASSETS

	2011	2010
Current Liabilities:		
Accounts payable	\$ 1,286,150	\$ 9,047,099
Accrued expenses	2,166,817	161,486
Current maturities of long-term debt	52,443,889	49,583,555
Total current liabilities	<u>55,896,856</u>	<u>58,792,140</u>
Long-term Liabilities:		
Long-term debt, less current maturities	44,481,926	34,530,258
Accrued vacation	163,005	145,931
Accrued sick leave	8,643	11,600
Total long-term liabilities	<u>44,653,574</u>	<u>34,687,789</u>
Total liabilities	<u>100,550,430</u>	<u>93,479,929</u>
Net Assets:		
Invested in capital assets, net of related debt	267,320,924	274,486,838
Restricted for:		
Debt service	1,749,568	1,390,676
Unrestricted (deficit)	3,524,194	6,694,783
Total net assets	<u>272,594,686</u>	<u>282,572,297</u>
Total Liabilities and Net Assets	<u><u>\$ 373,145,116</u></u>	<u><u>\$ 376,052,226</u></u>

See the accompanying notes.

**PANAMA CITY – BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Airline	\$ 871,108	\$ 1,405,918
General aviation	383,313	121,932
Car rental	3,748,415	2,013,923
Terminal complex	2,866,618	1,674,437
Other revenue	<u>289,348</u>	<u>164,517</u>
Total operating revenues	<u>8,158,802</u>	<u>5,380,727</u>
Operating Expenses:		
Personnel costs	2,293,426	2,078,973
Purchased services	3,086,910	1,492,887
Supplies and materials	355,549	215,986
Utilities	1,045,431	649,774
Insurance	293,696	180,764
Other expenses	60,664	52,818
Southwest start-up costs	-	580,542
Relocation expense	485,705	747,237
Depreciation	11,983,447	4,870,649
(Less expenses reclassified to work in progress)	<u>(723,801)</u>	<u>(757,431)</u>
Total operating expenses	<u>18,881,027</u>	<u>10,112,199</u>
Income (loss) from operations	<u>(10,722,225)</u>	<u>(4,731,472)</u>
Nonoperating Revenues (Expenses):		
Unrealized gain (loss) on investments	(710)	466
Gain on disposal of assets	73,150	-
PFC revenues	1,646,924	1,059,557
Proceeds from insurance	37,126	-
Interest earned	6,755	13,672
Interest expense	(1,994,132)	-
Grants	<u>975,501</u>	<u>49,154,767</u>
Total nonoperating revenues (expenses)	<u>744,614</u>	<u>50,228,462</u>
Change in Net Assets	(9,977,611)	45,496,990
Total Net Assets at Beginning of Year	<u>282,572,297</u>	<u>237,075,307</u>
Total Net Assets at End of Year	<u>\$272,594,686</u>	<u>\$282,572,297</u>

See the accompanying notes.

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	2011	2010
Reconciliation of Operating Income to Net Cash Provided		
(Used) By Operating Activities:		
Operating loss	\$ (10,722,225)	\$ (4,731,472)
Adjustments to reconcile operating income to net cash provided by operating activities-		
Depreciation	11,983,447	4,870,649
Change in assets and liabilities-		
Accounts receivable	13,130,884	4,915,488
Prepaid expenses	(22,000)	83,153
Accounts payable	(7,760,949)	(16,412,815)
Accrued expenses	2,005,331	81,958
Accrued vacation	17,074	29,210
Accrued sick leave	(2,957)	11,600
Net cash provided by (used in) operating activities	<u>\$ 8,628,605</u>	<u>\$ (11,152,229)</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 1,975,674</u>	<u>\$ 573,590</u>
Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to the Statement of Net Assets:		
Cash and cash equivalents	\$ 2,949,430	\$ 838,941
Restricted cash and cash equivalents	4,810,434	2,176,298
	<u>\$ 7,759,864</u>	<u>\$ 3,015,239</u>

See the accompanying notes.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Advertising:

Advertising costs are generally charged to operations in the year incurred. Advertising expense was \$141,889 and \$15,819 for the years ended September 30, 2011 and 2010, respectively.

Investment:

Investments are recorded at cost and consist primarily of certificates of deposit. These are classified as held-to-maturity and carried at amortized cost, and there were no significant unrecognized holding gains or losses.

Capital Assets:

Capital assets are recorded at cost and are depreciated principally by the straight-line method over the estimated useful lives of individual assets. Donated capital assets are recorded at estimated fair market value at the date of donation.

Estimated useful lives are generally as follows:

Buildings and improvements	10-39 years
Improvements	5-39 years
Equipment, furniture and fixtures	3-15 years

Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable:

Accounts are charged to bad debt expense as they are deemed uncollectible. At September 30, 2011 and 2010, no allowance for uncollectible accounts was considered necessary.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization of Interest:

In accordance with the Statements of Financial Accounting Standards Codification (SFAS) 34 and 62, issued by the Financial Accounting Standards Board (FASB), the District has adopted the policy of capitalizing net interest costs during the period of project construction (interest expense less any interest earned on the investment of bond proceeds). At September 30, 2011 and 2010, the amount of capitalized interest was \$1,975,674 and \$573,590, respectively.

Estimates:

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTE 2 - RESTRICTED ASSETS

The restricted assets primarily represent cash and investments reserved in accordance with the loan ordinances and with requirements of the Passenger Facility Charge program.

At September 30, 2011 and 2010, restricted assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents -		
Construction	\$ 2,835,010	\$ 413,290
PFC Excess Cash	42,672	350,521
Bond Sinking Coverage	1,561,107	1,390,676
Debt Service Reserve	188,461	-
Regions Construction	174,267	12,909
Forfeiture Funds	8,917	8,902
Accounts Receivable - PFC	<u>252,615</u>	<u>204,119</u>
	<u>\$ 5,063,049</u>	<u>\$ 2,380,417</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 3 - LONG-TERM DEBT

Changes in long-term debt are summarized as follows:

	<u>Balance October 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2011</u>	<u>Due in One Year</u>
State Infrastructure Bank Loan: Agreement dated December 21, 2007 authorized a total Principal of \$25,000,000, interest payable at 4.6% beginning October 1, 2011 with principal and interest payments of \$1,668,074 due annually beginning October 1, 2011 and maturing in 2036; the loan is collateralized by a pledge of net revenues and eligible PFC revenues.	\$24,500,000	\$ 500,000	\$ 0	\$ 25,000,000	\$ 518,074
State Infrastructure Bank Loan: Agreement dated April 27, 2009 authorized a total principal of \$20,000,000 interest payable at 4.6% beginning October 1, 2011 with principal and interest payments of \$1,421,500 due annually beginning October 1, 2012 and maturing in 2036; the loan is collateralized by a pledge of net revenues and eligible PFC revenues.	10,030,258	9,969,742	0	20,000,000	0

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 3 - LONG-TERM DEBT (Continued)

Changes in long-term debt are summarized as follows:

	<u>Balance October 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2011</u>	<u>Due in One Year</u>
Bank Loan:					
Loan agreement dated July 23, 2009 authorized a total principal of \$55,000,000 Series B Note to finance the construction of the new airport; as of September 30, 2011, \$51,925,799 has been drawn against the loan. The notes bear interest at a variable rate; the current interest rate approximated 2.0% (Series B); interest payable semiannually in arrears April 1 and October 1, commencing on October 1, 2009. The loan matures on January 15, 2012 and is collateralized by a pledge of net revenues, proceeds from the sale of existing Airport, eligible PFC revenues, and income received from the investment of moneys.	49,583,555	2,342,260	0	51,925,815	51,925,815
	<u>\$ 84,113,813</u>	<u>\$12,812,002</u>	<u>\$ 0</u>	<u>\$ 96,925,815</u>	<u>\$ 52,443,889</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 3 - LONG-TERM DEBT (Continued)

Debt service requirements to maturity for long-term debt subsequent to September 30, 2011, are as follows:

Year Ended	State Infrastructure Bank Loan Agreement		State Infrastructure Bank Loan Agreement		Bank Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	-	-	-	-	\$ 51,925,815	\$ 304,777
2012	\$ 518,074	\$1,150,000	-	-		
2013	541,905	1,126,169	-	\$ 1,421,500		
2014	566,833	1,101,241	\$ 81,739	1,339,761		
2015	592,907	1,075,167	505,260	916,240		
2016-2020	3,399,617	4,940,753	2,897,063	4,209,437		
2021-2025	4,256,850	4,083,520	3,627,575	3,479,925		
2026-2030	5,330,240	3,010,130	4,542,290	2,565,210		
2031-2035	6,674,292	1,666,078	5,687,655	1,414,845		
2036-2037	3,119,282	216,842	2,658,418	190,810		
	<u>\$ 25,000,000</u>	<u>\$ 18,369,900</u>	<u>\$ 20,000,000</u>	<u>\$15,537,728</u>	<u>\$ 51,925,815</u>	<u>\$ 304,777</u>

The Airport's bank loan agreement required a reserve account to be established. The reserve account balance should equal the greater of \$330,000 or three percent of the aggregate principal advances outstanding. At September 30, 2011, sufficient reserves were maintained.

The Florida Department of Environmental Protection ("DEP") required the Airport to establish a management endowment to earn interest, which would be used to pay mitigation costs. In lieu of an endowment, the Airport established a \$6,000,000 letter of credit as agreed upon with the DEP. The DEP is authorized to draw down on the letter of credit. As of September 30, 2011, there were no draws on the letter of credit.

NOTE 4 - LEASES

The District leases a substantial portion of its property to various organizations under operating leases. Rental income was as follows:

	<u>2011</u>	<u>2010</u>
Noncancellable leases-		
Minimum rentals	\$1,205,349	\$ 768,297
Contingent rentals	<u>2,839,885</u>	<u>1,403,132</u>
	<u>\$4,045,234</u>	<u>\$2,171,429</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 4 – LEASES (Continued)

The bases of rentals are as follows:

Airlines - A fixed amount annually, plus a variable amount based on aircraft operations and enplaned passengers.

Rental Cars - The greater of an amount fixed annually or a percentage of revenues, and a fixed amount for terminal area and maintenance facility rent.

Restaurant/Gift Shop - The greater of a fixed annual amount or a percentage of revenues, which percentage is periodically renegotiated.

Fixed Base Operations - Fixed amounts annually based on amounts of acreage plus a variable amount based on gallons of fuel flowage.

All Others - Advertisements in the airport are on a percentage of fee basis; all others are fixed monthly amounts.

Future minimum rental commitments as of September 30, 2011, for the next five years are as follows:

2012	\$ 2,651,120
2013	2,727,861
2014	2,831,960
2015	2,504,128
2016	577,903

The approximate carrying value and accumulated depreciation pertaining to property held for rental included on the Statements of Net Assets at September 30, 2011 is not readily determinable.

NOTE 5 - PASSENGER FACILITY CHARGE

The District imposes a passenger facility charge of \$4.50 per enplaned passenger (except for those passengers exempt under the application or the regulation) at the District. The air carriers receive an \$.11 handling fee per passenger, so the Airport nets \$4.39 per enplaned passenger. The PFC application allows PFC funds to be collected up to five years in advance of an anticipated project or an alternative project in the event the anticipated project is not undertaken.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 6 - COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Litigation:

The District is involved in various lawsuits and claims in connection with the relocation of the Airport and incidental to the normal course of its operations. In the opinion of management, the ultimate liability, if any, resulting from such litigation will not materially affect the financial position or results of operations of the District.

Settlement Agreements:

On November 23, 2010, a settlement agreement was reached between the District and a third party. The third party agreed to receipt of \$6,000,000 in full settlement of all claims for compensation. The District paid \$3,921,000 in fiscal year 2010 during the eminent domain process. The balance of \$2,079,000 was paid in January 2011. Upon payment the eminent domain suit was voluntarily dismissed. Fifty percent of the additional \$2,079,000 was funded by the Florida Department of Transportation (FDOT).

On November 18, 2010, a settlement agreement was reached between the District and a third party. The District agreed to pay \$250,000 to the third party. The third party relinquishes all rights, title and interest to any property improvements and fixtures that were left at the old airport property. This payment is for any and all claims that the third party had against the District. Fifty percent of the settlement agreement was funded by the FDOT.

Grant Contingencies:

The District participates in various federal and state grants. These programs are subject to audit and adjustment by the funding agency or their representatives. If grant revenues are received for expenditures which are subsequently disallowed, the Airport may be required to repay the revenues to the funding agency.

In a letter dated January 19, 2010, the Office of Inspector General (OIG), State of Florida noted that noncompliance conditions exist with the Joint Participation Agreement (JPA) AK776 with the Florida Department of Transportation. Project AK776 was closed out in July, 2006. Included in these conditions were possible violations of contractual provisions, use of federal funds not in compliance with the agreement, inadequate matching funds, payment of unreimbursable costs, and inadequate review and analysis of proposed costs. Currently, the District is working with the State of Florida, Inspector General to resolve the noncompliance conditions. Since it is not possible at this time to predict the outcome of the negotiation proceedings with the State, no adjustments that may result from the final resolution of these conditions have been made in the accompanying financial statements.

During this fiscal year, the Office of Inspector General (OIG) conducted an audit of JPA AO264. During that examination, the OIG determined that the airport took appropriate corrective action to address the findings in the prior OIG report, including: overall improvement in documentation of vendor expenses, purchase and implementation of an accounting system to track expenses by project and funding source, and documentation of cost estimate services included in consultant's scope of services.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 6 - COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Continued)

Fine Contingency:

Currently, the District has been assessed certain fines related to the new construction and environmental laws. The District is currently involved in negotiation with regulatory agents. Any liabilities resulting from these fines have not been recorded in these financial statements since a final determination has not been made concerning the District's ultimate obligation on the matter. Should the District be required to pay any portion of the fines, the District will attempt to recover the costs from the construction contractor.

Contract Commitments:

At September 30, 2011, the District had contractual commitments of approximately \$2,368,300 for construction of airport projects. Funding of these future expenditures is expected to be received from federal grants, state grants, and current operations.

Airport Sale Agreement:

The District has a contract to sell the existing facilities and land being operated as the Panama City - Bay County International Airport at a price of \$56,500,000. Closing on the agreement will occur thirty business days after the District certifies all conditions of the contract have been met including compliance with covenants, delivery of documents, issuance of title policy, cessation of airport activities, release of FAA restrictions, decommission of FAA installations, completion of environmental remediation work, and environmental site assessment reports. Currently, the District has extended the closing date to January 31, 2012 and if necessary, the District can further extend until February 29, 2012. The purchaser will have the right to terminate the agreement if not closed by April 24, 2012.

Environmental Remediation:

In compliance with the Airport sale agreement, the District has commenced environmental remediation work. The District has contracted with environmental professionals who are working with the Florida Department of Environmental Protection and local regulatory agencies with the site evaluation and cleanup.

Subsequent Events:

The District did not have any other subsequent events requiring disclosure or recording in these financial statements through January 10, 2012, which is the date these financial statements were issued.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 7 – COMPENSATED ABSENCES

All full-time employees of the District earn vacation pay based on years of service.

Employees are not paid in lieu of vacation except in the event of resignation or termination, in which case unused vacation pay is paid up to the amount earned or the maximum cumulative amount, whichever is less. Vacation benefits are accrued in the period they are earned. The liability for accumulated annual leave at September 30, 2011 and 2010, is \$163,005 and \$145,931, respectively.

All full-time employees, excluding firefighters, of the District earn or accumulate sick leave with pay at the rate of one day per month and may accumulate a maximum of 60 days. Firefighters earn or accumulate sick leave with pay at 4.89 hours per pay period or 127 hours annually and may accumulate a maximum of 636 hours. Employees accumulating the maximum sick leave may be paid annually for one-third of the excess sick leave earned over the maximum, provided the maximum accumulation is maintained. The amount of excess sick leave paid to an employee may not exceed four days per annum. If hired before June 30, 1999, a percentage of accumulated sick leave is paid upon termination. The amount paid is dependent upon retirement age and years of service.

NOTE 8 - RETIREMENT PLAN

The District provides pension benefits for all of its full-time employees through the Panama City - Bay County Airport and Industrial District Money Purchase Plan, a defined contribution plan. The plan is administered by the District with Regions Morgan Keegan Trust serving as trustee. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate one month after the date of employment. Benefits fully vest after six years of employment. Contributions in the amount of 10% of the preceding month's compensation are made each month by the District, as outlined in the adoption agreement which was approved by the board on November 2, 1982. The Plan is noncontributory. Plan assets are invested in annuity contracts. Contributions made equaled required contributions for the current and two preceding years.

The District's total salaries expensed in fiscal year 2011 and 2010 were \$1,731,216 and \$1,636,663 respectively. The District's contributions were calculated using the salary amount of approximately \$1,550,205 and \$1,325,809 for September 30, 2011 and 2010, respectively. The retirement expense by the District was \$160,123 and the amount contributed was \$160,123 for the year ended September 30, 2011; the expense for the year ended September 30, 2010 was \$127,478 and the amount contributed was \$127,478. Any difference between pension expense and the amount contributed results from pension forfeitures.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 9 - DEPOSITS AND INVESTMENTS

In compliance with the District's investment policy and Section 218.345 of the Florida Statutes, the District may invest in obligations of the U.S. Treasury and its agencies, interest bearing time deposits or savings accounts in banks provided that such deposits are secured by collateral as prescribed by Chapter 280, Florida Security for Public Deposits Act, of the Florida Statutes and the State Treasurer's investment pool.

Included in the District's cash balances are amounts deposited with banks in interest bearing accounts, non-interest bearing demand accounts and interest bearing time deposit accounts. The bank balances are entirely insured by federal depository insurance or by collateral pursuant to the Florida Security for Public Deposits Act of the State of Florida.

The Florida Security for Public Deposits Act (the Act) establishes guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, District's deposits in qualified public depositories are considered totally insured. The qualified public depository must pledge at least 50% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance. Additional collateral, up to a maximum of 125% may be required, if deemed necessary under the conditions set forth in the Act. Obligations pledged to secure deposits must be delivered to the State Treasurer or, with the approval of the State Treasurer, to a bank, savings association, or trust company provided a power of attorney is delivered to the State Treasurer.

As of September 30, 2011, the District held the following investments:

Investment Maturities

<u>Investment Type</u>	<u>Less than 1 Year</u>	<u>More than 1 Year</u>
Other	\$ 0	\$ 1,253

NOTE 10 - BUDGET TO ACTUAL - REVENUES AND EXPENSES

The annual budget is adopted on a basis consistent with generally accepted accounting principles. Management may not increase a department's total expenditures without seeking the approval of the Board of Directors, who may amend the budget at any time during the fiscal year. Amounts shown in the financial statements represent the original budgeted amounts and all supplemental amendments. During the year, several supplementary appropriations were necessary. All unencumbered budget appropriations lapse at the end of each fiscal year. Encumbrance accounting is not employed.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 10 - BUDGET TO ACTUAL - REVENUES AND EXPENSES (Continued)

For the year ended September 30, 2011, the District's actual operating revenues exceeded budgeted operating revenues by \$118,778 and actual operating expenses exceeded budgeted operating expenses by \$12,009,591. The actual operating expenses increase over budgeted operating expenses was due to the following:

- \$11,983,477 in depreciation expense that was not budgeted by the District in 2011,
- \$485,705 of relocation costs originally included in the relocation budget of capitalized costs were moved to operating expenses.

For the year ended September 30, 2010, the District's actual operating revenues exceeded budgeted operating revenues by \$1,268,148 and actual operating expenses exceeded budgeted operating expenses by \$6,104,600. The actual operating expenses increase over budgeted operating expenses was primarily due to \$4,870,649 in depreciation expense that was not budgeted by the District in 2010.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; business interruption; job-related illnesses or injuries to employees; and natural disasters for which the District carries commercial insurance.

There have been no significant reductions in insurance coverage from coverage in the prior year. The amounts of settlements have not exceeded insurance coverage for any of the past three fiscal years.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 12 - CAPITAL ASSETS

Changes in capital assets were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 66,732,233	\$ 4,493,113		\$ 71,225,346
Construction in progress	<u>12,396,078</u>	<u>18,091,001</u>	<u>\$ 19,243,241</u>	<u>11,243,838</u>
Total capital assets, not being depreciated	<u>79,128,311</u>	<u>22,584,114</u>	<u>19,243,241</u>	<u>82,469,184</u>
Capital assets, being depreciated:				
Buildings and improvements	182,129,675	9,082,845		191,212,520
Improvements other than buildings	118,237,724	5,173,188		123,410,912
Furniture and equipment	<u>6,880,085</u>	<u>32,629</u>		<u>6,912,714</u>
Total capital assets, being depreciated	<u>307,247,484</u>	<u>14,288,662</u>		<u>321,536,146</u>
Less accumulated depreciation for:				
Buildings and improvements	4,809,114	4,482,577		9,291,691
Improvements other than buildings	19,846,026	6,663,348		26,509,374
Furniture and equipment	<u>3,120,004</u>	<u>837,522</u>		<u>3,957,526</u>
Total accumulated depreciation	<u>27,775,144</u>	<u>11,983,447</u>		<u>39,758,591</u>
Total capital assets being depreciated, net	<u>279,472,340</u>	<u>2,305,215</u>		<u>281,777,555</u>
Capital Assets, Net	<u>\$358,600,651</u>	<u>\$ 24,889,329</u>	<u>\$ 19,243,241</u>	<u>\$364,246,739</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULES OF BUDGETED AND ACTUAL RECEIPTS AND EXPENSES
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011		2010
	Budget	Actual	Actual
Operating Revenues:			
Airline -			
Passenger airline landing fees	\$ 289,182	\$ 283,587	\$ 225,071
Cargo airline landing fees	14,481	12,433	7,227
Terminal rentals and common use	230,657	235,634	369,914
Security charges	186,092	251,243	201,717
Jet bridge charges	80,300	66,120	49,080
Southwest start-up grant	-	22,091	552,909
Total airline revenue	<u>800,712</u>	<u>871,108</u>	<u>1,405,918</u>
Car rentals -			
Ticket counter & office space	81,371	81,371	47,784
Ready return parking spaces	58,685	58,685	22,063
Service facility rents	219,625	222,852	77,216
Concession fee	2,257,908	1,867,056	1,167,455
Customer facility charge	1,655,876	1,518,451	699,405
Total car rental	<u>4,273,465</u>	<u>3,748,415</u>	<u>2,013,923</u>
Terminal complex -			
Public and employee parking	1,971,041	2,262,558	1,377,990
Ground transportation fees	43,020	61,312	26,847
Food & beverage concession	148,195	215,413	87,688
Retail merchandise concession	33,000	71,432	23,748
Advertising	106,000	132,137	62,544
Other terminal revenue	6,000	123,766	95,620
Total terminal complex revenues	<u>2,307,256</u>	<u>2,866,618</u>	<u>1,674,437</u>
General aviation -			
Fixed base operator rents	39,204	32,857	42,450
Fuel flowage fees	164,369	57,882	39,395
Hangar rentals	329,331	292,574	40,087
Total general aviation revenue	<u>532,904</u>	<u>383,313</u>	<u>121,932</u>
Other revenue -			
Other tenants/miscellaneous	105,503	102,664	105,750
Fuel farm	-	164,475	45,069
Cargo building rental	20,184	22,209	9,460
Non-aviation income	-	-	4,238
Total other revenue	<u>125,687</u>	<u>289,348</u>	<u>164,517</u>
Total operating revenues	<u>\$ 8,040,024</u>	<u>\$ 8,158,802</u>	<u>\$ 5,380,727</u>

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULES OF BUDGETED AND ACTUAL RECEIPTS AND EXPENSES
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011		2010
	Budget	Actual	Actual
Operating Expenses:			
Salaries and benefits -			
Salary and wages	\$ 1,588,784	\$ 1,642,572	\$ 1,414,964
Overtime	46,987	52,730	111,474
FICA contributions	126,935	121,924	117,661
Group insurance	223,394	227,260	227,026
Retirement	138,978	160,124	127,478
Workers compensation insurance	39,466	46,251	48,766
Other employee costs	29,409	42,565	31,604
Total personnel costs	<u>2,193,953</u>	<u>2,293,426</u>	<u>2,078,973</u>
Purchased services -			
Janitorial	600,000	609,136	14,527
Bank charges	143,650	36,236	17,334
Computer services	134,000	87,414	14,690
Elevator/escalator services	31,200	14,752	3,291
Financial audit	26,050	27,450	24,050
Grounds maintenance	40,000	-	-
Legal services	450,000	868,143	898,687
BHS/Loading bridge maintenance	419,500	366,114	-
Marketing and advertising	250,000	140,625	10,122
Parking lot management	334,684	293,005	206,157
Professional services	391,053	239,435	98,971
Security services and systems maintenance	294,074	278,635	120,585
Trash removal	16,800	18,300	4,579
Postage/copy services	12,000	12,285	11,282
Radios and PA	600	17,080	-
Terminal/facility services	45,304	33,437	6,074
Other services and maintenance	60,300	44,863	62,538
Total purchased services	<u>3,249,215</u>	<u>3,086,910</u>	<u>1,492,887</u>
Supplies and materials -			
Office supplies	11,700	15,676	14,147
Fuel, oil, tires, vehicles, equipment	52,450	60,590	51,467
Airfield and grounds	41,600	71,172	12,885
Buildings (including loading bridges)	113,950	176,873	95,529
Uniforms	11,900	13,883	6,635
Other materials and supplies	31,650	17,355	35,323
Total supplies and materials	<u>263,250</u>	<u>355,549</u>	<u>215,986</u>
Utilities -			
Electricity	620,000	856,941	485,121
Natural gas	-	1,624	55,009
Telephone	89,400	65,118	56,502
Water and sewer	66,000	121,748	53,142
Total utilities	<u>775,400</u>	<u>1,045,431</u>	<u>649,774</u>

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULES OF BUDGETED AND ACTUAL RECEIPTS AND EXPENSES
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011		2010
	Budget	Actual	Actual
Insurance -			
Bonds	2,000	93	1,318
Building and contents	253,916	243,937	133,447
Liability	39,277	34,906	38,292
Vehicle and equipment	7,155	14,760	7,707
Total insurance expense	302,348	293,696	180,764
Other expenses -			
Dues and subscriptions	37,200	34,364	35,378
Promotions and special events	5,200	3,197	2,742
Travel and conference	25,800	12,851	10,125
Training	15,725	9,763	3,181
Miscellaneous expense	3,345	489	1,392
Total other expense	87,270	60,664	52,818
(Less expenses reclassified to work in progress)	-	(723,801)	(757,431)
Total	6,871,436	6,411,875	3,913,771
Southwest start-up costs	-	-	580,542
Relocation expense	-	485,705	747,237
Depreciation	-	11,983,447	4,870,649
Total operating expense	6,871,436	18,881,027	10,112,199
Excess operating revenues (expenses)	1,168,588	(10,722,225)	(4,731,472)
Nonoperating Receipts (Expenses):			
PFC revenues	1,502,984	1,646,924	1,059,557
Unrealized gain (loss) on investments	-	(710)	466
Gain on disposal of assets	-	73,150	-
Interest earned	10,000	6,755	13,672
Interest expense	-	(1,994,132)	-
Grants	1,933,225	975,501	49,154,767
Loan proceeds	6,290,000	-	-
Proceeds from insurance	-	37,126	-
Capital projects -			
Airport portion	-	(17,139,739)	(38,382,634)
Non-Airport portion	-	(975,501)	(49,154,767)
	9,736,209	(17,370,626)	(37,308,939)
Excess Receipts (Expenses)	\$ 10,904,797	\$ (28,092,851)	\$ (42,040,411)

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF CONSTRUCTION WORK-IN-PROGRESS
SEPTEMBER 30, 2011**

Project Number

AO264/AOM25	Environmental assessment	\$ 473,731
AO264/AOM25	Land sale	3,571,125
AO264/AOM25	Finance	2,207,796
AO264/AOM25	Construction administration	595,584
AO264/AOM25	Terminal construction	166,987
Not Awarded	DEP	2,275,441
Not Awarded	Parking lot expansion	1,456,438
Not Awarded	Construction litigation	487,475
AIP 4	Jet bridges	133
Not Awarded	Site stabilization	3,878
AIP 5	Master plan	5,250
		<hr/>
		<u>\$ 11,243,838</u>

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BY FUNDING SOURCE
YEAR ENDED SEPTEMBER 30, 2011**

	<u>Airport Funding</u>	<u>FAA/FDOT Funding</u>	<u>Total</u>
Revenues:			
Operating revenues	\$ 8,158,802	-	\$ 8,158,802
Capital grants -			
FDOT	-	\$ 975,501	975,501
PFC revenues	1,646,924	-	1,646,924
Unrealized gain (loss)	(710)	-	(710)
Gain on disposal of assets	73,150	-	73,150
Proceeds from insurance	37,126	-	37,126
Interest revenue	6,755	-	6,755
Total revenues	<u>9,922,047</u>	<u>975,501</u>	<u>10,897,548</u>
Expenses:			
Administrative	763,089	-	763,089
Custodial	6,966	-	6,966
Executive	911,702	-	911,702
Facility management	1,141,769	-	1,141,769
General maintenance	1,802,866	-	1,802,866
Police department	1,131,901	-	1,131,901
Airport rescue - firefighters	653,582	-	653,582
Depreciation	11,983,447	-	11,983,447
Interest expense	1,994,132	-	1,994,132
Relocation expense	485,705	-	485,705
Non-Grant funded capital items	4,027,668	-	4,027,668
Grant funded capital project	13,112,071	975,501	14,087,572
Total expenses	<u>38,014,898</u>	<u>975,501</u>	<u>38,990,399</u>
Excess Revenues (Expenses)	<u>\$ (28,092,851)</u>	<u>\$ -</u>	<u>\$ (28,092,851)</u>

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF NON-GRANT FUNDED CAPITAL ITEMS
ACQUIRED DURING THE YEAR ENDED SEPTEMBER 30, 2011**

DEP	\$ 963,900
FAA reimbursables	28,030
Miscellaneous	17,579
Parking lot expansion	1,456,326
VORTAC	1,046,242
Site stabilization	3,878
Construction litigation	487,475
Fingerprint system	10,645
Waste holding tanks	3,858
Lightning protection for electrical racks	5,500
Homa pump for fuel farm	2,253
Water buffalo	1,099
Computer - executive director	<u>883</u>
	<u><u>\$ 4,027,668</u></u>

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF GRANT FUNDED CAPITAL PROJECTS
EXPENDED DURING THE YEAR ENDED SEPTEMBER 30, 2011**

Project Number	Airport Funding	FDOT Funding	Total
AO264/AOM25/AP975/AIP001-002	\$ 4,493,113	-	\$ 4,493,113
AO264/AIP35	3,560	-	3,560
AO264/AOM25	595,584	-	595,584
AO264/AOM25	878,627	-	878,627
AO264/AOM25	2,547,819	\$ 975,501	3,523,320
AO264/AOM25	119,365	-	119,365
AO264/AOM25/AIP002-003	166,987	-	166,987
AO264/AOM25/AIP001	(136,355)	-	(136,355)
AO264/AOM25	(20,275)	-	(20,275)
AO264/AOM25	2,207,796	-	2,207,796
AOM25	264,543	-	264,543
AO264/AOM25	17,057	-	17,057
AOM25	5,419	-	5,419
AO264/AOM25	958,706	-	958,706
AO264/AOM25	88,214	-	88,214
AO264/AOM25	144,677	-	144,677
AOM25	485,705	-	485,705
AO264/AOM25	271,642	-	271,642
APR18-19-20	(1,080)	-	(1,080)
AOM25	15,582	-	15,582
AIP 4	134	-	134
AIP 5	5,251	-	5,251
Total	\$ 13,112,071	\$ 975,501	\$ 14,087,572

See independent auditor's report.

**PANAMA CITY - BAY COUNTY AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULES OF OPERATIONS, GRANTS AND CAPITAL EXPENDITURES
LAST TEN FISCAL YEARS**

Year Ended 9/30	Percentage Increase of Operating Revenue Over Prior Year	Operating Revenue	Operating Expense	Net Operating Income (Loss)	PFC Revenues	Contributions/ Grants for		Net Operating Income, PFC Revenues and Contributions	Capital/ Grants Expenditures
						Capital Outlay			
2011	52%	\$ 8,158,802	\$ 18,881,027	\$ (10,722,225)	\$ 1,646,924	\$ 975,501	\$	\$ (8,099,800)	\$ 18,115,240
2010	49%	5,380,727	10,112,199	(4,731,472)	1,059,557	49,154,767		45,482,852	87,537,401
2009	1%	3,618,245	4,088,439	(470,194)	574,597	70,803,689		70,908,092	113,650,503
2008	6%	3,595,524	4,475,771	(880,247)	678,352	52,278,001		52,076,106	59,151,245
2007	5%	3,365,907	4,380,660	(1,014,753)	781,950	5,946,307		5,713,504	7,371,227
2006	1%	3,190,177	3,906,948	(716,771)	792,933	6,192,073		6,268,235	5,634,036
2005	9%	3,164,083	3,741,615	(577,532)	803,093	3,632,311		3,857,872	3,781,115
2004	6%	2,911,704	3,574,468	(662,764)	589,960	6,707,369		6,634,565	6,889,486
2003	15%	2,744,842	3,448,739	(703,897)	484,830	8,817,997		8,598,930	9,125,403
2002	1%	2,395,982	3,395,518	(999,536)	445,712	10,687,739		10,133,915	10,638,237

The following are omitted from the above data:

- (1) Interest earnings
- (2) Interest expenses
- (3) Gain (loss) on sale of fixed assets
- (4) Miscellaneous nonoperating revenues

See Independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
DEBT COVERAGE REQUIREMENTS
LAST TEN FISCAL YEARS**

Year Ended 9/30	Required Debt Coverage on 1993 Series Revenue Bonds
2011	\$ 0
2010	0
2009	0
2008	0
2007	430,631
2006	430,631
2005	430,631
2004	430,744
2003	430,744
2002	430,744

* The Series 1993 Bonds were paid in full during 2008.

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL
ASSISTANCE AND PASSENGER FACILITY CHARGES
YEAR ENDED SEPTEMBER 30, 2011**

	CFDA/ CFSA Number	Balance October 1, 2010	Adjustments	Cash Receipts	Expenditures	Balance September 30, 2011 (1)
<u>Federal Aviation Administration</u>						
3-12-0159-001-2007	20.106	\$ (24,394)	-	\$ 24,394	-	-
3-12-0159-002-2008	20.106	(3,475)	\$ 1	-	-	(3,474)
Total		<u>\$ (27,869)</u>	<u>\$ 1</u>	<u>\$ 24,394</u>	<u>-</u>	<u>\$ (3,474)</u>
<u>Florida Department of Transportation (2)</u>						
AP 975		\$ (670,000)	\$ 188,999	\$ 481,001	-	-
AOM25		(11,745,150)	-	11,745,150	-	-
AO264			-	1,164,500	\$ (1,164,500)	-
APR20		(5,308)	-	-	-	\$ (5,308)
Total State		<u>\$ (12,420,458)</u>	<u>\$ 188,999</u>	<u>\$ 13,390,651</u>	<u>\$ (1,164,500)</u>	<u>\$ (5,308)</u>
<u>Department of Homeland Security</u>						
HSTS04-09-H-CT1322		<u>\$ (1,258,390)</u>	<u>-</u>	<u>\$ 794,396</u>	<u>-</u>	<u>\$ (463,994)</u>
		Cash/Investments/ Receivables October 1, 2010		Revenue*	Expended	Cash/Investments/ Receivables September 30, 2011 (1)
Passenger facility charges		<u>\$ 554,640</u>		<u>\$ 1,646,924</u>	<u>\$ (1,906,277)</u>	<u>\$ 295,287</u>

* Includes interest earnings of \$1,378

(1) Includes receivable.

(2) The Florida Department of Transportation does not assign CFSA numbers to projects that receive federal awards.

See independent auditor's report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Panama City - Bay County Airport
and Industrial District
Panama City, Florida

We have audited the financial statements of the Panama City - Bay County Airport and Industrial District as of and for the year ended September 30, 2011, and have issued our report thereon dated January 10, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Panama City - Bay County Airport and Industrial District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Panama City - Bay County Airport and Industrial District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Panama City - Bay County Airport and Industrial District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Panama City – Bay County Airport and Industrial District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of the Panama City - Bay County Airport and Industrial District and certain regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Jipton, Marler, Garner & Chastain, CPAs

Panama City, Florida
January 10, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR
STATE PROJECT AND PASSENGER FACILITY CHARGE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Board of Directors
Panama City – Bay County Airport
and Industrial District
Panama City, Florida

Compliance

We have audited the compliance of Panama City – Bay County Airport and Industrial District with the types of compliance requirements described in the Department of Financial Services State Projects Compliance Supplement, that are applicable to each of its major State projects and the requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended September 30, 2011. Panama City – Bay County Airport and Industrial District's major State projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major State projects and Passenger Facility Charge program is the responsibility of Panama City – Bay County Airport and Industrial District's management. Our responsibility is to express an opinion on Panama City – Bay County Airport and Industrial District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550 Rules of the Auditor General and the Guide. Those standards and Chapter 10.550 Rules of the Auditor General and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project or the Passenger Facility Charge program occurred. An audit includes examining, on a test basis, evidence about Panama City – Bay County Airport and Industrial District's compliance with those requirements and performing such other

procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Panama City – Bay County Airport and Industrial District's compliance with those requirements.

In our opinion, Panama City – Bay County Airport and Industrial District complied, in all material respects, with the requirements referred to above that are applicable to each of its major State projects, and its Passenger Facility Charge program for the year ended September 30, 2011.

Internal Control Over Compliance

The management of Panama City – Bay County Airport and Industrial District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to State projects and the Passenger Facility Charge program. In planning and performing our audit, we considered Panama City – Bay County Airport and Industrial District's internal control over compliance with the requirements that could have a direct and material effect on a major State project or the Passenger Facility Charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Panama City - Bay County Airport and Industrial District's internal control over compliance.

A *deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State project or Passenger Facility Charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State project or Passenger Facility Charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, the Board of Directors of the Panama City – Bay County Airport and Industrial District and certain regulatory agencies and is not intended to be and should not be used by anyone other than these specific parties.

Panama City, Florida
January 10, 2012

Jipton, Marler, Garner & Chastain, CPAs

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Panama City – Bay County Airport and Industrial District.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Panama City – Bay County Airport and Industrial District, were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major State projects.
5. The auditor's report on compliance with requirements applicable to the major State projects for Panama City – Bay County Airport and Industrial District expresses an unqualified opinion.
6. Our audit disclosed no findings required to be reported related to State projects required to be disclosed under Chapter 10.557, Rules of the Auditor General.
7. The programs/projects tested as major programs/projects included the following:

State Project	State CSFA No.
Florida Department of Transportation	None
8. The threshold for distinguishing types A and B programs/projects was \$300,000 for major State projects.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

NONE

D. OTHER ISSUES

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to State projects.

No corrective action plan is required because there were no findings required to be reported under the Florida Single Audit Acts.



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Directors
Panama City - Bay County Airport
and Industrial District
Panama City, Florida

We have audited the financial statements of the Panama City-Bay County Airport and Industrial District as of and for the fiscal year ended September 30, 2011 and have issued our report thereon dated January 10, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each Major State Project and Passenger Facility Charge Program and on Internal Control over Compliance in accordance with Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 10, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Panama City - Bay County Airport and Industrial District complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse that have occurred or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provision of contracts or grant agreements, fraud, illegal acts or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Panama City - Bay County Airport and Industrial District is an independent special district created by an act of the Legislature of the State of Florida and is not considered a component unit of any other local government unit. The special act which created the District was Chapter 67-1099 of House Bill 1608 file June 19, 1967, which was later repealed and replaced by Chapter 98-527 of House Bill 4545 filed May 22, 1998, Chapter 2005-311 of House Bill 939 filed June 14, 2005, and Chapter 2005-311 of House Bill 1635 filed July 1, 2010.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Panama City - Bay County Airport and Industrial District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Panama City - Bay County Airport and Industrial District for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Panama City - Bay County Airport and Industrial District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Jipton, Marler, Barner & Chastain, CPAs

Panama City, Florida
January 10, 2012