

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
PANAMA CITY, FLORIDA
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011**



Tipton, Marler, Garner & Chastain
The CPA Group

PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
PANAMA CITY, FLORIDA
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 14, 2013, 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.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, 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 14, 2013

**PANAMA CITY-BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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 \$299,033,890 (net assets). Of this amount, \$695 is restricted for debt service, and \$2,890,026 is unrestricted.
- Total net assets increased by \$26,439,204. Of this amount, \$2,858,891 is attributable to grant-funded projects, while \$23,580,313 is attributable to the business-type activities of the District.
- Operating revenues increased by \$2,181,091, or 26.8 percent, over prior year operating revenues. Operating expenses increased by \$428,734, or 2.27 percent, over prior year operating expenses.
- Passenger facility charge revenues remained flat, with a decrease of \$7,162, or .43 percent compared to the prior year.

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

	2012	2011
Current and other assets	\$ 4,922,395	\$ 8,898,377
Capital assets	<u>340,484,490</u>	<u>364,246,739</u>
Total assets	<u>345,406,885</u>	<u>373,145,116</u>
Long-term debt outstanding	44,341,321	44,481,926
Other liabilities	<u>2,031,674</u>	<u>56,068,504</u>
Total liabilities	<u>46,372,995</u>	<u>100,550,430</u>
Net assets:		
Invested in capital assets, net of debt	296,143,169	267,320,924
Restricted	695	1,749,568
Unrestricted	<u>2,890,026</u>	<u>3,524,194</u>
Total net assets	<u>\$ 299,033,890</u>	<u>\$ 272,594,686</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.

The following schedule provides a summary of the changes in net assets for the current and prior years.

Table 2
Changes in Net Assets

	2012	2011
Revenues		
Operating revenues	\$ 10,339,893	\$ 8,158,802
Grants and entitlements	2,858,891	975,501
PFC revenues	1,639,762	1,646,924
Interest	<u>5,887</u>	<u>6,755</u>
Total revenues	<u>14,844,433</u>	<u>10,787,982</u>
Program expenses		
Operating expenses	19,309,761	18,881,027
Interest expense	<u>2,483,106</u>	<u>1,994,132</u>
Total expenses	<u>21,792,867</u>	<u>20,875,159</u>
Excess (deficiency) before special items	<u>(6,948,434)</u>	<u>(10,087,177)</u>
Special items –		
Unrealized gain/loss	277	(710)
Insurance proceeds		37,126
FAA reimbursement	349,694	
Gain on disposal of assets	<u>33,037,667</u>	<u>73,150</u>
Total special items	<u>33,387,638</u>	<u>109,566</u>
Increase in net assets	<u>\$ 26,439,204</u>	<u>\$ (9,977,611)</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Operating revenues are primarily generated from users of the airport, and include airline fees and charges, concessions, parking, car rentals, general aviation space rentals and building rentals. These collections are accounted for in the District's one proprietary fund.

In fiscal year 2011, the airlines were paying the same rates as they had paid at Panama City-Bay County International Airport. Negotiations were ongoing with the airlines, and while a new operating agreement had not been signed by the end of the fiscal year, the airlines agreed to pay increased rates that would be incorporated into the new agreements. On October 1, 2011, the terminal rental rent increased from \$25.40 per square foot per year to \$50.00 per square foot per year, and the landing fee rates increased from \$1.16 per 1,000 pounds of certificated weight to \$3.45 per 1,000 pounds. In addition, Southwest Airlines agreed to defer receipt of the remaining eight months of incentives,

and to receive payment for those months over the course of the next three years (2013 – 2015).

The largest sources of revenues for the District are rental cars (39% of total revenues), airlines (28% of total revenues) and parking (20% of total revenues).

Operating expenses include salaries and benefits, purchased services, supplies and materials, utilities, insurance and other expenses. Salaries and benefits represent approximately 38% of the airport's annual operating expenses, and purchased services account for the largest percentage at 40%. Purchased services makes up the largest percentage of total expenses this year due to the extensive stabilization work that had to be done on the entrance road and other areas of the airport, requiring the purchase of a large amount of sod at a considerable cost to the District.

ANALYSIS OF BALANCES AND TRANSACTIONS

Unrestricted net assets decreased by \$634,168. This is due to the revenue sharing agreement with the airlines, whereby at the end of each fiscal year rates and charges are recalculated using audited financial data (settlement), and the District shares a percentage of net remaining revenues with the signatory carriers. For the year ended September 30, 2012, the amount due to the airlines after the settlement calculation is \$772,627.

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 \$11,871,066, due to depreciation expense which was not budgeted.

Actual operating revenues exceeded budget by \$688,093, due to greater than anticipated passenger traffic, resulting in larger than budgeted airline and rental car revenues.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets

At September 30, 2012, the District had \$371,535,802 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 decrease (including additions and deductions) of \$32,469,528 or 8 percent, compared to last year.

Table 3
Capital Assets at Year-end

	2012	2011
Land	\$ 67,127,613	\$ 71,225,346
Buildings and improvements	186,232,822	191,212,520
Improvements other than buildings	108,917,658	123,410,912
Furniture and equipment	7,698,610	6,912,714
Construction work-in-progress	<u>1,559,099</u>	<u>11,243,838</u>
Totals	<u>\$ 371,535,802</u>	<u>\$404,005,330</u>

Major capital asset events during the current fiscal year included the following:

- Costs to conclude work at PFN prior to closing totaled \$1,115,222.
- Capital equipment purchased totaled \$929,564, of which \$464,782 was funded by State grants.
- Two new jet bridges were purchased at a cost of \$887,623, of which \$842,651 was funded by a Federal grant.
- Mitigation site development was ongoing at a cost of \$567,766, of which \$499,689 was funded by a Federal grant.

The fiscal year 2013 budget includes \$3,446,000 of grant and non-grant projects. These projects include expansion of the terminal south aircraft apron, Air Traffic Control Tower and Safety Security Building site modifications, crosswind runway stabilization, painting of fuel tanks, mitigation site development and the purchase of additional capital equipment.

Debt

At year-end, the District had long-term debt of \$44,341,321, as shown in Table 4:

Table 4
Outstanding Debt at Year-end

	2012	2011
SIB Loan (backed by passenger facility charges and airport operations)	\$44,341,321	\$44,481,926
Bank Loan (backed by proceeds from sale of existing airport, eligible passenger facility charges and airport operations)	<u>0</u>	<u>52,443,889</u>
	<u>\$44,341,321</u>	<u>\$96,925,815</u>

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Fiscal year 2012 represented the second full fiscal year of operation at the Northwest Florida Beaches International Airport. The airport opened on May 23, 2010 with increased flights, improved competition and lower air fares. Passenger volumes have continued to improve, generating an increase in our market share to 25% of the Panhandle region. As we close out the second fiscal year of operation, the airport is poised to continue the development of a sound financial structure. To accomplish this, several goals must be completed during fiscal year 2013. These efforts include completing all environmental items necessary to bring the airport into compliance with the environmental agencies, developing additional air service opportunities for our region, completing the environmental assessment and 404 permit for additional land development, and completing the master plan for the airport.

Additionally, continued business process improvement, improved cost effectiveness and marketing initiatives will guide our vision for fiscal year 2013.

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

	2012	2011
Current Liabilities:		
Accounts payable	\$ 1,768,412	\$ 1,286,150
Accrued expenses	114,973	2,166,817
Current maturities of long-term debt	30,394	52,443,889
Total current liabilities	<u>1,913,779</u>	<u>55,896,856</u>
 Long-term Liabilities:		
Long-term debt, less current maturities	44,341,321	44,481,926
Accrued vacation	108,146	163,005
Accrued sick leave	9,749	8,643
Total long-term liabilities	<u>44,459,216</u>	<u>44,653,574</u>
 Total liabilities	<u>46,372,995</u>	<u>100,550,430</u>
 Net Assets:		
Invested in capital assets, net of related debt	296,143,169	267,320,924
Restricted for:		
Debt service	695	1,749,568
Unrestricted	2,890,026	3,524,194
Total net assets	<u>299,033,890</u>	<u>272,594,686</u>
 Total Liabilities and Net Assets	 <u><u>\$ 345,406,885</u></u>	 <u><u>\$ 373,145,116</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, 2012 AND 2011**

	2012	2011
Operating Revenues:		
Airline	\$ 2,920,833	\$ 871,108
Car rental	4,073,720	3,748,415
Terminal complex	2,656,032	2,866,618
General aviation	483,725	383,313
Other revenue	205,583	289,348
Total operating revenues	<u>10,339,893</u>	<u>8,158,802</u>
Operating Expenses:		
Personnel costs	2,647,270	2,293,426
Purchased services	3,565,702	3,086,910
Supplies and materials	390,728	355,549
Utilities	933,244	1,045,431
Insurance	228,847	293,696
Other expenses	67,421	60,664
Relocation expense	4,993	485,705
Depreciation	12,279,297	11,983,447
(Less expenses reclassified to work in progress)	(807,741)	(723,801)
Total operating expenses	<u>19,309,761</u>	<u>18,881,027</u>
Income (loss) from operations	<u>(8,969,868)</u>	<u>(10,722,225)</u>
Nonoperating Revenues (Expenses):		
Unrealized gain (loss) on investments	277	(710)
Gain on disposal of assets	33,037,667	73,150
PFC revenues	1,639,762	1,646,924
Proceeds from insurance	-	37,126
Interest earned	5,887	6,755
Interest expense	(2,483,106)	(1,994,132)
Grants	2,858,891	975,501
Other revenue	349,694	-
Total nonoperating revenues (expenses)	<u>35,409,072</u>	<u>744,614</u>
Change in Net Assets	26,439,204	(9,977,611)
Total Net Assets at Beginning of Year	<u>272,594,686</u>	<u>282,572,297</u>
Total Net Assets at End of Year	<u>\$ 299,033,890</u>	<u>\$ 272,594,686</u>

See the accompanying notes.

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	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash Provided		
(Used) By Operating Activities:		
Operating loss	\$ (8,969,868)	\$ (10,722,225)
Adjustments to reconcile operating income to net cash provided by operating activities-		
Depreciation	12,279,297	11,983,447
Change in assets and liabilities-		
Accounts receivable	(289,670)	13,130,884
Prepaid expenses	(9,020)	(22,000)
Accounts payable	482,262	(7,760,949)
Accrued expenses	(2,051,844)	2,005,331
Accrued vacation	(24,465)	17,074
Accrued sick leave	1,106	(2,957)
Net cash provided by (used in) operating activities	<u>\$ 1,417,798</u>	<u>\$ 8,628,605</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 4,477,237</u>	<u>\$ 1,975,674</u>
Reconciliation of Cash and Cash Equivalents per Statement		
of Cash Flows to the Statement of Net Assets:		
Cash and cash equivalents	\$ 3,307,459	\$ 2,949,430
Restricted cash and cash equivalents	177,456	4,810,434
	<u>\$ 3,484,915</u>	<u>\$ 7,759,864</u>

See the accompanying notes.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

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 governmental unit. The special act which created the District was Chapter 67-1099 of House Bill 1608 filed 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. The Panama City - Bay County Airport and Industrial District operates the Northwest Florida Beaches International Airport.

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The financial statements are reported using the flow of economic resources measurement focus (accrual basis of accounting). This means that all assets and liabilities (whether current or noncurrent) associated with this activity are included on the balance sheet. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The annual budget is adopted on a basis consistent with generally accepted accounting principles.

The District is accounted for as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that 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 (b) where the governing body has 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.

The District operates as a proprietary (enterprise) fund and applies Financial Accounting Standards Board (FASB) Codification pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are lease fees and related charges. Operating expenses of the District include personal services, contractual and professional services, supplies, repairs and maintenance, utilities, advertising and promotions, other expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses. Capital grants are reported as nonoperating revenue in compliance with GASB Statement No. 33.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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 \$160,837 and \$141,889 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, no allowance for uncollectible accounts was considered necessary.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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, 2012 and 2011, the amount of capitalized interest was \$0 and \$1,975,674, 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, 2012 and 2011, restricted assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents –		
Construction	\$ 80,100	\$ 2,835,010
PFC Excess Cash	75,733	42,672
Bond Sinking Coverage	-	1,561,107
Debt Service Reserve	695	188,461
Regions Construction	-	174,267
Forfeiture Funds	8,928	8,917
Escrow Fund	12,000	-
Accounts Receivable - PFC	<u>164,316</u>	<u>252,615</u>
	<u>\$ 341,772</u>	<u>\$ 5,063,049</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 3 - LONG-TERM LIABILITIES

Changes in long-term liabilities are summarized as follows:

	<u>Balance October 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2012</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.	\$25,000,000	\$ 2,276,169	\$ 3,336,149	\$ 23,940,020	\$ 0
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.	20,000,000	1,822,801	1,421,500	20,401,301	0

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 3 - LONG-TERM LIABILITIES (Continued)

Changes in long-term liabilities are summarized as follows:

	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012	Due in One Year
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, \$51,925,815 had 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 matured on January 15, 2012 and was 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.	51,925,815	0	51,925,815	0	0
Total Long-term Debt	96,925,815	4,098,970	56,683,464	44,341,321	0
Total Compensated Absences	171,648	176,650	200,009	148,289	30,394
Total Long-term Liabilities	\$ 97,097,463	\$4,275,620	\$56,883,473	\$ 44,489,610	\$ 30,394

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 3 - LONG-TERM LIABILITIES (Continued)

Debt service requirements to maturity for long-term debt subsequent to September 30, 2012, are as follows:

<u>Year Ended</u>	<u>State Infrastructure Bank Loan Agreement</u>		<u>State Infrastructure Bank Loan Agreement</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 566,833	\$ 1,101,241	\$ 81,739	\$ 1,339,761
2015	592,907	1,075,167	505,260	916,240
2016	620,181	1,047,893	528,502	892,998
2017-2021	3,555,999	4,784,371	3,030,328	4,077,172
2022-2026	4,452,665	3,887,705	3,794,444	3,313,056
2027-2031	5,575,431	2,764,939	4,751,235	2,356,265
2032-2036	6,981,309	1,359,060	5,949,287	1,158,213
2037	1,594,696	73,355	1,359,205	62,523
	<u>\$ 23,940,021</u>	<u>\$ 16,093,731</u>	<u>\$20,000,000</u>	<u>\$ 14,116,228</u>

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, 2012, 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>2012</u>	<u>2011</u>
Noncancellable leases-		
Minimum rentals	\$2,594,783	\$1,205,349
Contingent rentals	<u>8,193,368</u>	<u>2,839,885</u>
	<u>\$10,788,151</u>	<u>\$4,045,234</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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, 2012, for the next five years are as follows:

2013	\$ 2,766,867
2014	2,719,969
2015	2,457,416
2016	459,636
2017	471,746

The approximate carrying value and accumulated depreciation pertaining to property held for rental included on the Statements of Net Assets at September 30, 2012 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, 2012 AND 2011**

NOTE 6 - COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Litigation:

One lawsuit related to construction costs of the new Airport remains pending. On November 24, 2010 Phoenix Construction Services, Inc. filed suit against the District and Post, Buckley, Schuh and Jernigan, Inc. in the Circuit Court, Fourteenth Judicial Circuit of the State of Florida, in and for Bay County, case no. 10002839CA. This lawsuit related to responsibility for various costs of construction of the new Airport, various contractual damage claims, and a statutory claim alleging late payments on certain invoices, as well as contractual and professional negligence claims against Post, Buckley, Schuh & Jernigan, Inc. ("Atkins"). In response, the airport filed counter claims against Phoenix Construction, Atkins and Kellogg Brown and Root Services, Inc. ("KBR") and KBR filed a claim against the Airport for unpaid fees. On January 5, 2012, a settlement agreement was reached between the District and Phoenix Construction. The District and Phoenix agreed to pursue claims against third parties. The claims against Atkins were subsequently settled, and the case between the Airport and KBR went to court, with KBR prevailing on all claims. Thereafter, the Airport's share of the settlement was disbursed, with the Airport receiving \$1,333,719. The claims against KBR are presently being appealed by the Airport. The Airport does not have potential for additional liability, but could achieve a more favorable outcome if the appeal is successful.

With the exception of the appeal of the claims against KBR, there is no pending or, to the knowledge of the District, threatened litigation regarding the construction of the project.

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.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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

Currently, the District is working with the State of Florida, Inspector General to resolve the noncompliance conditions related to Joint Participation Agreement (JPA) AK 776 with the Florida Department of Transportation which was closed out in 2006. 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 the 2011 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.

Contract Commitments:

At September 30, 2012, the District had contractual commitments of approximately \$1,636,549 for construction of airport projects. Funding of these future expenditures is expected to be received from federal grants, state grants, and current operations.

Parking Lot:

In December 2012, the District reached an agreement with The St. Joe Corporation to close down the Covered Airport Parking lot that was located adjacent to the Airport. The lot closed on December 19, 2012. This will result in increased parking revenues to the District, since there will be no other parking options available. The District does have plans to construct an area of covered parking in the existing Airport lot. The District has already begun the process of securing grant funding for this project, which is estimated to be done in Spring of 2013.

Environmental Remediation:

The District entered into a Consent Order with the Florida Department of Environmental Protection (the third consent order) on May 25, 2012 which incorporated all remaining issues from prior consent orders and is intended to resolve all remaining environmental concerns about the project. Since prior vegetative site stabilization issues have been resolved to the Florida Department of Environmental Protections' satisfaction, the remaining ongoing corrective actions required by the Consent Order are focused on restoring areas of deteriorated wetlands and enhancing the performance of the Airport's stormwater system. The district also paid penalties to the FDEP as part of the consent order.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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

The District is progressing on the corrective actions described above in compliance with the Consent Order. This work will be funded by Federal and State grants and airport funds. It is anticipated that the work will be completed by the end of September, 2013.

Subsequent Events:

The District did not have any other subsequent events requiring disclosure or recording in these financial statements through January 14, 2013, which is the date these financial statements were issued.

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, 2012 and 2011, is \$138,540 and \$163,005, 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.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

NOTE 8 - RETIREMENT PLAN (Continued)

The District's total salaries expensed in fiscal year 2012 and 2011 were \$2,000,483 and \$1,731,216 respectively. The District's contributions were calculated using the salary amount of approximately \$2,005,905 and \$1,550,205 for September 30, 2012 and 2011, respectively. The retirement expense by the District was \$200,456 and the amount contributed was \$200,456 for the year ended September 30, 2012; the expense for the year ended September 30, 2011 was \$160,123 and the amount contributed was \$160,123. Any difference between pension expense and the amount contributed results from pension forfeitures.

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, 2012, 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	\$ 1,530

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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.

For the year ended September 30, 2012, the District's actual operating revenues exceeded budgeted operating revenues by \$688,093 and actual operating expenses exceeded budgeted operating expenses by \$11,871,066. The actual operating expenses increase over budgeted operating expenses was due to the following:

- \$12,279,297 in depreciation expense that was not budgeted by the District in 2012.

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 primarily due to \$11,983,477 in depreciation expense that was not budgeted by the District in 2011.

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, 2012 AND 2011**

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	\$ 71,225,346	-	\$ 4,097,733	\$ 67,127,613
Construction in progress	<u>11,243,838</u>	<u>\$ 6,091,943</u>	<u>15,776,682</u>	<u>1,559,099</u>
Total capital assets, not being depreciated	<u>82,469,184</u>	<u>6,091,943</u>	<u>19,874,415</u>	<u>68,686,712</u>
Capital assets, being depreciated:				
Buildings and improvements	191,212,520	3,241,516	8,221,214	186,232,822
Improvements other than buildings	123,410,912	12,536,465	27,029,719	108,917,658
Furniture and equipment	<u>6,912,714</u>	<u>785,896</u>	<u>-</u>	<u>7,698,610</u>
Total capital assets, being depreciated	<u>321,536,146</u>	<u>16,563,877</u>	<u>35,250,933</u>	<u>302,849,090</u>
Less accumulated depreciation for:				
Buildings and improvements	9,291,691	4,736,913	3,351,054	10,677,550
Improvements other than buildings	26,509,374	6,949,237	17,635,522	15,823,089
Furniture and equipment	<u>3,957,526</u>	<u>593,147</u>	<u>-</u>	<u>4,550,673</u>
Total accumulated depreciation	<u>39,758,591</u>	<u>12,279,297</u>	<u>20,986,576</u>	<u>31,051,312</u>
Total capital assets being depreciated, net	<u>281,777,555</u>	<u>4,284,580</u>	<u>14,264,357</u>	<u>271,797,778</u>
Capital Assets, Net	<u>\$364,246,739</u>	<u>\$ 10,376,523</u>	<u>\$ 34,138,772</u>	<u>\$ 340,484,490</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULES OF BUDGETED AND ACTUAL RECEIPTS AND EXPENSES
YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	2012		2011
	Budget	Actual	Actual
Operating Revenues:			
Airline-			
Passenger airline landing fees	\$ 1,537,800	\$ 1,873,381	\$ 283,587
Cargo airline landing fees	15,000	26,519	12,433
Terminal rentals and common use	1,167,300	1,020,933	235,634
Security charges	-	-	251,243
Jet bridge charges	-	-	66,120
Southwest start-up grant	-	-	22,091
Total airline revenue	<u>2,720,100</u>	<u>2,920,833</u>	<u>871,108</u>
Car rentals-			
Ticket counter & office space	-	20,757	81,371
Ready return parking spaces	-	14,607	58,685
Service facility rents	-	39,621	222,852
Concession fee	1,890,000	2,118,676	1,867,056
Customer facility charge	1,652,000	1,880,059	1,518,451
Total car rental	<u>3,542,000</u>	<u>4,073,720</u>	<u>3,748,415</u>
Terminal complex-			
Public and employee parking	2,203,100	2,012,225	2,262,558
Ground transportation fees	51,500	70,697	61,312
Food & beverage concession	222,000	249,703	215,413
Rental merchandise concession	70,000	82,211	71,432
Advertising	136,000	136,709	132,137
Other terminal revenue	7,100	104,487	123,766
Total terminal complex revenues	<u>2,689,700</u>	<u>2,656,032</u>	<u>2,866,618</u>
General aviation -			
Fixed base operator rents	75,000	84,722	32,857
Fuel flowage fees	30,000	28,603	57,882
Hangar rentals	350,000	370,400	292,574
Total general aviation revenue	<u>455,000</u>	<u>483,725</u>	<u>383,313</u>
Other revenue -			
Other tenants/miscellaneous	110,000	62,194	102,664
Fuel farm	135,000	139,714	164,475
Cargo building rental	-	3,675	22,209
Total other revenue	<u>245,000</u>	<u>205,583</u>	<u>289,348</u>
Total operating revenues	<u>9,651,800</u>	<u>10,339,893</u>	<u>8,158,802</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, 2012 AND 2011**

	2012		2011
	Budget	Actual	Actual
Operating Expenses:			
Salaries and benefits -			
Salary and wages	\$ 2,023,500	\$ 1,909,743	\$ 1,642,572
Overtime	62,500	66,265	52,730
FICA contributions	154,300	149,475	121,924
Group insurance	297,600	245,681	227,260
Retirement	201,800	200,456	160,124
Workers compensation insurance	65,000	40,495	46,251
Other employee costs	28,300	35,155	42,565
Total personnel costs	<u>2,833,000</u>	<u>2,647,270</u>	<u>2,293,426</u>
Purchased services -			
Janitorial	607,300	607,311	609,136
Bank charges	163,000	146,079	36,236
Computer services	85,600	30,457	87,414
Elevator/escalator services	30,000	34,098	14,752
Financial audit	27,500	26,850	27,450
Grounds maintenance	134,000	175,791	-
Legal services	875,000	953,220	868,143
BHS/loading bridge maintenance	383,000	397,335	366,114
Marketing and advertising	225,000	153,884	140,625
Parking lot management	415,000	331,880	293,005
Professional services	360,000	371,151	239,435
Security services and system maintenance	180,000	173,930	278,635
Trash removal	20,000	17,887	18,300
Postage/copy services	17,300	11,197	12,285
Radios and PA	46,000	37,521	17,080
Terminal/facility services	53,000	41,058	33,437
Other services and maintenance	50,000	56,053	44,863
Total purchased services	<u>3,671,700</u>	<u>3,565,702</u>	<u>3,086,910</u>
Supplies and materials -			
Office supplies	14,250	24,408	15,676
Fuel, oil, tires, vehicles, equipment	71,300	77,772	60,590
Airfield and grounds	101,000	173,975	71,172
Buildings (including loading bridges)	130,500	51,303	176,873
Uniforms	15,225	13,164	13,883
Other materials and supplies	37,550	50,106	17,355
Total supplies and materials	<u>369,825</u>	<u>390,728</u>	<u>355,549</u>
Utilities -			
Electricity	700,000	726,761	856,941
Natural gas	1,500	21,091	1,624
Telephone	67,100	69,732	65,118
Water and sewer	100,000	115,660	121,748
Total utilities	<u>868,600</u>	<u>933,244</u>	<u>1,045,431</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, 2012 AND 2011**

	2012		2011
	Budget	Actual	Actual
Operating Expenses (continued):			
Insurance -			
Bonds	\$ 2,000	\$ -	\$ 93
Building and contents	220,000	186,542	243,937
Liability	30,000	35,524	34,906
Vehicle and equipment	10,000	6,781	14,760
Total insurance expense	<u>262,000</u>	<u>228,847</u>	<u>293,696</u>
Other expenses -			
Dues and subscriptions	40,950	35,859	34,364
Promotions and special events	10,000	3,591	3,197
Travel and conference	34,000	16,583	12,851
Training	20,520	10,539	9,763
Miscellaneous expense	3,100	849	489
Total other expense	<u>108,570</u>	<u>67,421</u>	<u>60,664</u>
(Less expenses reclassified to work in progress)	<u>(675,000)</u>	<u>(807,741)</u>	<u>(723,801)</u>
Total	7,438,695	7,025,471	6,411,875
Relocation expense	-	4,993	485,705
Depreciation	-	12,279,297	11,983,447
Total operating expense	<u>7,438,695</u>	<u>19,309,761</u>	<u>18,881,027</u>
Excess operating revenues (expenses)	<u>2,213,105</u>	<u>(8,969,868)</u>	<u>(10,722,225)</u>
Nonoperating Receipts (Expenses):			
PFC revenues	1,750,000	1,639,762	1,646,924
Unrealized gain (loss) on investments	-	277	(710)
Gain on disposal of assets/land	-	33,037,667	73,150
Interest earned	6,600	5,887	6,755
Interest expense	(3,002,600)	(2,483,106)	(1,994,132)
Grants	3,629,700	2,858,891	975,501
Other revenue	-	349,694	-
Proceeds from insurance	-	-	37,126
Capital projects -			
Airport portion	(781,084)	(4,986,100)	(17,139,739)
Non-Airport portion	(3,629,700)	(2,858,891)	(975,501)
	<u>(2,027,084)</u>	<u>27,564,081</u>	<u>(17,370,626)</u>
Excess Receipts (Expenses)	<u>\$ 186,021</u>	<u>\$ 18,594,213</u>	<u>\$ (28,092,851)</u>

See independent auditor's report.

PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF CONSTRUCTION WORK-IN-PROGRESS
SEPTEMBER 30, 2012

Project Number

AO264/AOM25	Utilities	\$ 231,579
AIP5/AP976	Master plan	158,677
Not Awarded	404 permit	200,699
Not Awarded	Seed and sod	278,835
AO264/AOM25	Environmental assessment	568,960
AQF14	SMS Mods	<u>120,349</u>
		<u>\$ 1,559,099</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, 2012**

	<u>Airport Funding</u>	<u>FAA/FDOT Funding</u>	<u>Total</u>
Revenues:			
Operating revenues	\$ 10,339,893	-	\$ 10,339,893
Capital grants -			
FAA	-	\$ 2,387,248	2,387,248
FDOT	-	471,643	471,643
Other revenue	349,694	-	349,694
PFC revenues	1,639,762	-	1,639,762
Unrealized gain on investments	277	-	277
Gain on disposal of land	33,037,667	-	33,037,667
Interest revenue	5,887	-	5,887
Total revenues	<u>45,373,180</u>	<u>2,858,891</u>	<u>48,232,071</u>
Expenses:			
Personnel	2,647,270	-	2,647,270
Purchased services	3,565,702	-	3,565,702
Supplies and materials	390,728	-	390,728
Utilities	933,244	-	933,244
Insurance	228,847	-	228,847
Other expense	67,421	-	67,421
Expenses reclassified	(807,741)	-	(807,741)
Depreciation	12,279,297	-	12,279,297
Interest expense	2,483,106	-	2,483,106
Relocation expense	4,993	-	4,993
Non-Grant funded capital items	2,104,729	-	2,104,729
Grant funded capital project	2,881,371	2,858,891	5,740,262
Total expenses	<u>26,778,967</u>	<u>2,858,891</u>	<u>29,637,858</u>
Excess Revenues (Expenses)	<u>\$ 18,594,213</u>	<u>\$ -</u>	<u>\$ 18,594,213</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, 2012

DEP	\$	187,662
Parking lot expansion		726,958
VORTAC		25,547
Site stabilization		274,957
Construction litigation		652,755
404 Permit		200,700
Carpet		1,299
Maintenance equipment		<u>34,851</u>
	\$	<u>2,104,729</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, 2012

Project Number	Description	Airport Funding	FAA Funding	FDOT Funding	Total
Capital Projects:					
AIP 4	URA	-	\$ 899,053	-	\$ 899,053
AO264/AOM25/AP975/AIP001-002	Construction	-	100	-	100
AO264/AOM25	Construct contract admin	\$ 73,131	-	-	73,131
AO264/AOM25	Mitigation	68,077	499,689	-	567,766
AO264/AOM25	GA facilities	123,065	-	-	123,065
AO264/AOM25/AIP002-003	Terminal construction	49,405	-	-	49,405
AO264/AOM25	Utilities	231,579	-	-	231,579
AOM25	Landscaping	54,444	-	-	54,444
AO264/AOM25	Land sale	1,115,222	-	-	1,115,222
AO264/AOM25	Environmental assessment	647,354	-	-	647,354
AIP 4	Jet bridges	44,972	842,651	-	887,623
AIP 5	Master plan	3,835	145,755	\$ 3,836	153,426
AQP 14	SMS Modifications	60,175	-	60,174	120,349
Total		<u>2,471,259</u>	<u>2,387,248</u>	<u>64,010</u>	<u>4,922,517</u>
Equipment Purchases:					
APR 20	Emergency response radios	26,373	-	25,552	51,925
AQF12/AQF13/AQF14	Maintenance equipment	350,389	-	348,732	699,121
AQF12/AQF13/AQF14	Professional fees	33,350	-	33,349	66,699
		<u>410,112</u>	<u>-</u>	<u>407,633</u>	<u>817,745</u>
Total Grant Funding		<u>\$ 2,881,371</u>	<u>\$ 2,387,248</u>	<u>\$ 471,643</u>	<u>\$ 5,740,262</u>

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 Capital Outlay	Net Operating Income, PFC Revenues and Contributions	Capital/ Grants Expenditures
2012	27%	\$ 10,339,893	\$ 19,309,761	\$ (8,969,868)	\$ 1,639,762	\$ 2,858,891	\$ (4,471,215)	\$ 7,844,991
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

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
2012	\$ 0
2011	0
2010	0
2009	0
2008	0
2007	430,631
2006	430,631
2005	430,631
2004	430,744
2003	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, 2012

	CFDA/ CFSA Number	Balance October 1, 2011	Adjustments(3)	Cash Receipts	Expenditures	Balance September 30, 2012 (1)
Federal Aviation Administration						
3-12-0159-002-2008	20.106	\$ (3,474)	\$ (1)	\$ 3,475	\$ -	\$ -
3-12-0159-003-2009	20.106	-	-	100	(100)	-
3-12-0159-004-2011	20.106	-	(899,153)	2,129,251	(1,342,240)	(112,142)
3-12-0159-005-2011	20.106	-	-	58,594	(145,755)	(87,161)
Total		<u>\$ (3,474)</u>	<u>\$ (899,154)</u>	<u>\$ 2,191,420</u>	<u>\$ (1,488,095)</u>	<u>\$ (199,303)</u>
Florida Department of Transportation (2)						
AQF 12		\$ -	\$ -	\$ 111,275	\$ (197,213)	\$ (85,938)
AQF 13		-	-	38,699	(57,233)	(18,534)
AQF 14		-	-	37,131	(187,809)	(150,678)
APR 20		(5,308)	-	6,149	(25,552)	(24,711)
AP 976		-	-	1,543	(3,836)	(2,293)
Total State		<u>\$ (5,308)</u>	<u>\$ -</u>	<u>\$ 194,797</u>	<u>\$ (471,643)</u>	<u>\$ (282,154)</u>
Department of Homeland Security						
HSTS04-09-H-CT1322		<u>\$ (463,994)</u>	<u>-</u>	<u>\$ 463,994</u>	<u>-</u>	<u>-</u>
		Cash/Investments/ Receivables October 1, 2011		Revenue*	Expended	Cash/Investments/ Receivables September 30, 2012 (1)
Passenger facility charges		<u>\$ 295,287</u>		<u>\$ 1,639,762</u>	<u>\$ (1,695,000)</u>	<u>\$ 240,049</u>

* Includes interest earnings of \$1,163

(1) Includes receivable.

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

(3) Prior period expenses that were deemed eligible by the FAA.

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, 2012, and have issued our report thereon dated January 14, 2013. 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

Management of Panama City - Bay County Airport and Industrial District is responsible for establishing and maintaining effective 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 and correct 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.

Panama City, Florida
January 14, 2013

*Jipton, Marler, Garner & Chastain,
CPAs*



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR FEDERAL PROGRAM, STATE PROJECT AND PASSENGER FACILITY CHARGE
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND 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 OMB Circular A-133 Compliance Supplement, 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, 2012. Panama City – Bay County Airport and Industrial District's major federal programs 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 federal programs 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 OMB Circular A-133, Audits of States Local Governments, and Non-Profit Organizations, Chapter 10.550 Rules of the Auditor General and the Guide. Those standards and OMB Circular A-133 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 federal program 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 compliance requirements referred to above to each of its major federal programs and its Passenger Facility Charge program that could have a direct and material effect, for the year ended September 30, 2012.

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 federal programs 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 federal programs or the Passenger Facility Charge program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 and correct, noncompliance with a type of compliance requirement of a federal program 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 federal program 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 14, 2013

Jipton, Marler, Garner & Chastain,
C'PAS

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2012**

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 federal programs.
5. The auditor's report on compliance with requirements that would have a direct and material effect on each major Federal awards program 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 Federal programs under Section 510(a) of OMB Circular A-133.
7. The programs/projects tested as major programs/projects included the following:

Federal Program	CFDA No.
Federal Aviation Administration	20.106
8. The threshold for distinguishing types A and B programs/projects was \$300,000 for major Federal Programs.
9. The Panama City - Bay County Airport and Industrial District was determined to not be a low risk audit pursuant to OMB A-133.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

NONE

D. OTHER ISSUES

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

No corrective action plan is required because there were no findings required to be reported under the Federal 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, 2012 and have issued our report thereon dated January 14, 2013.

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; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Chapter 10.550 Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, based on an Audit of the Financial Statements performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance with Requirements that could have a direct and material effect on each major federal program and Passenger Facility Charge Program and on Internal Control over Compliance in accordance with OMB Circular A-133, and 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 14, 2013, 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, 2012, 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, 2012. 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, Garner & Chastain,
CPAs*

Panama City, Florida
January 14, 2013