

PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
PANAMA CITY, FLORIDA
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013



Tipton, Marler, Garner & Chastain
The CPA Group

PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
PANAMA CITY, FLORIDA
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2014 AND 2013

CONTENTS

PAGE

Financial Section:

Independent Auditor's Report 1

Required Supplementary Information:

Management's discussion and analysis 4

Financial Statements – Enterprise Fund:

Statements of net position 10

Statements of revenues, expenses, and changes in net position 11

Statements of cash flows 12

Notes to financial statements 13

Other Supplementary Information - Enterprise Fund:

Schedules of budgeted and actual receipts and expenses 26

Schedule of construction work-in-progress 29

Schedule of revenues and expenses - by funding source 30

Schedule of non-grant funded capital items 31

Schedule of grant funded capital items 32

CONTENTS (Continued)

	PAGE
Schedules of operations, grants, and capital expenditures	33
Debt coverage requirements	34
Single Audit Reports:	
Schedule of expenditures of federal awards, state financial assistance, and passenger facility charges	35
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 <i>Government Auditing Standards</i>	36
Independent auditor's report on compliance for each major federal program, state project, and passenger facility charge program and on internal control over compliance required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General	38
Schedule of findings and questioned costs	41
Independent auditor's management letter	43



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Panama City - Bay County Airport and Industrial District, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Panama City - Bay County Airport and Industrial District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Panama City - Bay County Airport and Industrial District, as of September 30, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 9 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the Panama City - Bay County Airport and Industrial District's basic financial statements. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, state financial assistance, and passenger facility charges, as listed in the table of contents, is 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, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards, state financial assistance, and passenger facility charges is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, state financial assistance, and passenger facility charges is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2015, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Panama City - Bay County Airport and Industrial District's internal control over financial reporting and compliance.

Panama City, Florida
April 6, 2015

A handwritten signature in dark ink, appearing to read "Mark L. Lawrence". The signature is fluid and cursive, with a long horizontal stroke at the end.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 10.

FINANCIAL HIGHLIGHTS

- Total assets of the District exceeded total liabilities by \$292,061,788 (net position). Of this amount, \$695 is restricted for debt service, and \$9,719,323 is unrestricted.
- Total net position decreased by \$7,684,596. Of this amount, \$1,207,058 is attributable to grant-funded projects, while \$6,477,538 is attributable to the business-type activities of the District.
- Operating revenues increased by \$235,628, or 2.4 percent, over prior year operating revenues. Operating expenses decreased by \$849,332, or 4.1 percent, over prior year operating expenses.
- Passenger facility charge revenues decreased \$46,618 or 3.1 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 Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position 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 position and changes in that net position. The District's net position – 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 position 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 position of the District for the current and prior years.

Table 1
Net Assets

	2014	2013
Current and other assets	\$ 11,991,041	\$ 12,909,929
Capital assets	<u>324,436,823</u>	<u>333,498,764</u>
Total assets	<u>336,427,864</u>	<u>346,408,693</u>
Long-term debt outstanding	42,095,053	43,197,540
Other liabilities	<u>2,271,023</u>	<u>3,464,769</u>
Total liabilities	<u>44,366,076</u>	<u>46,662,309</u>
Net position:		
Invested in capital assets, net of debt	282,341,770	290,301,224
Restricted	695	695
Unrestricted	<u>9,719,323</u>	<u>9,444,465</u>
Total net position	<u>\$ 292,061,788</u>	<u>\$ 299,746,384</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 position for the current and prior years.

Table 2
Changes in Net Assets

	2014	2013
Revenues		
Operating revenues	\$ 9,973,071	\$ 9,737,443
Grants and entitlements	2,793,047	4,000,105
PFC revenues	1,435,586	1,482,204
Interest	<u>6,776</u>	<u>5,916</u>
Total revenues	<u>14,208,480</u>	<u>15,225,668</u>
Program expenses		
Operating expenses	19,950,890	20,800,222
Interest expense	<u>1,987,087</u>	<u>1,945,793</u>
Total expenses	21,937,977	22,746,015
Excess (deficiency) before special items	<u>(7,729,497)</u>	<u>(7,520,347)</u>
Special items –		
Unrealized gain/loss	2,098	2,410
Proceeds from litigation	0	7,537,222
Insurance proceeds	33,605	0
FAA reimbursement	0	316,339
Gain on disposal of assets	<u>9,198</u>	<u>376,870</u>
Total special items	<u>44,901</u>	<u>8,232,841</u>
Increase (decrease) in net position	<u>\$ (7,684,596)</u>	<u>\$ 712,494</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.

The largest sources of revenues for the District are rental cars (35% of total revenues), airlines (30% of total revenues), and parking (22% of total revenues).

Depreciation accounts for the largest portion of operating expenses at 64%. Other operating expenses include salaries and benefits, purchased services, supplies and materials, utilities, insurance, and other expenses. Salaries and benefits represent

approximately 16% of the airport's annual operating expenses, and purchased services account for 13%.

ANALYSIS OF BALANCES AND TRANSACTIONS

Unrestricted net position increased by \$274,858. This increase is primarily due to staff's efforts and success in working efficiently and controlling costs.

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 \$11,930,540, due to depreciation expense which was not budgeted.

Actual operating revenues were less than budget by \$1,759,083, due to declines in passenger traffic as the airlines continued to adjust flight schedules due to the seasonality of the area market.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets

At September 30, 2014, the District had \$380,834,296 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 \$3,621,573 or 1.5 percent, compared to last year.

Table 3
Capital Assets at Year-end

	2014	2013
Land	\$ 70,669,561	\$ 67,698,373
Buildings and improvements	186,293,377	186,232,822
Improvements other than buildings	111,057,225	109,202,358
Furniture and equipment	8,125,880	7,852,733
Construction work-in-progress	<u>4,688,253</u>	<u>6,235,437</u>
Totals	<u>\$380,834,296</u>	<u>\$377,221,723</u>

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

- A Ramp Expansion project was performed at a cost of \$1,335,631, of which \$1,293,421 was funded by Federal and State grants.
- The Covered Parking project was completed at a total cost of \$1,012,572, of which \$494,429 was funded by State grants.
- Capital equipment purchased totaled \$22,401, of which \$9,216 was funded by State grants.
- Mitigation Site Development was ongoing at a cost of \$823,786, of which \$709,635 was funded by Federal and State grants.
- The Airport Master Plan continued at a cost of \$171,926, of which \$161,037 was funded by Federal and State grants.

The fiscal year 2015 budget includes \$4,725,592 of grant and non-grant projects. These projects include security exit improvements, taxiway widening, construction of t-shades, construction of additional aircraft parking ramp, ongoing mitigation site development and continuation of the 404 permitting process.

Debt

At year-end, the District had long-term debt of \$42,095,053, as shown in Table 4:

**Table 4
Outstanding Debt at Year-end**

	2014	2013
SIB Loan (backed by passenger facility charges and airport operations)	<u>\$42,095,053</u>	<u>\$43,197,540</u>

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Northwest Florida Beaches International 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 fourth 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 2015. These efforts include 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 2015.

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.

this page intentionally left blank

LIABILITIES AND NET POSITION

	2014	2013
Current Liabilities		
Accounts payable	\$ 1,953,161	\$ 3,152,183
Accrued expenses	150,365	142,164
Current maturities of long-term debt	25,017	30,100
Total current liabilities	<u>2,128,543</u>	<u>3,324,447</u>
 Long-term Liabilities		
Long-term debt, less current maturities	42,095,053	43,197,540
Accrued vacation	131,470	127,382
Accrued sick leave	11,010	12,940
Total long-term liabilities	<u>42,237,533</u>	<u>43,337,862</u>
 Total liabilities	<u>44,366,076</u>	<u>46,662,309</u>
 Net Position		
Invested in capital assets, net of related debt	282,341,770	290,301,224
Restricted for:		
Debt service	695	695
Unrestricted	9,719,323	9,444,465
Total net position	<u>292,061,788</u>	<u>299,746,384</u>
 Total Liabilities and Net Position	 <u>\$ 336,427,864</u>	 <u>\$ 346,408,693</u>

See the accompanying notes.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	2014	2013
Operating Revenues		
Airline	\$ 2,939,464	\$ 2,810,002
Car rental	3,522,562	3,549,976
Terminal complex	2,873,421	2,700,461
General aviation	424,601	450,602
Other revenue	213,023	226,402
Total operating revenues	<u>9,973,071</u>	<u>9,737,443</u>
Operating Expenses		
Personnel costs	3,118,847	2,873,030
Purchased services	2,562,797	3,782,983
Supplies and materials	342,911	353,324
Utilities	868,611	825,223
Insurance	250,570	237,824
Other expenses	66,927	56,191
Depreciation	12,740,227	12,671,647
Total operating expenses	<u>19,950,890</u>	<u>20,800,222</u>
Income (loss) from operations	<u>(9,977,819)</u>	<u>(11,062,779)</u>
Nonoperating Revenues (Expenses)		
Unrealized gain on investments	2,098	2,410
Gain on disposal of assets/land	9,198	376,870
PFC revenues	1,435,586	1,482,204
Proceeds from litigation	-	7,537,222
Proceeds from insurance	33,605	-
Interest revenue	6,776	5,916
Interest expense	(1,987,087)	(1,945,793)
Grants	2,793,047	4,000,105
Other revenue	-	316,339
Total nonoperating revenues (expenses)	<u>2,293,223</u>	<u>11,775,273</u>
Change in Net Position	(7,684,596)	712,494
Total Net Position at Beginning of Year	<u>299,746,384</u>	<u>299,033,890</u>
Total Net Position at End of Year	<u>\$ 292,061,788</u>	<u>\$ 299,746,384</u>

See the accompanying notes.

this page intentionally left blank

	2014	2013
Reconciliation of Operating Income to Net Cash Provided		
(Used) By Operating Activities		
Operating loss	\$ (9,977,819)	\$ (11,062,779)
Adjustments to reconcile operating income to net cash provided by operating activities-		
Depreciation	12,740,227	12,671,647
Change in assets and liabilities-		
Accounts receivable	(297,378)	(188,894)
Prepaid expenses	5,118	(2,453)
Accounts payable	(1,199,022)	1,383,771
Accrued expenses	8,201	27,191
Accrued vacation	(995)	18,942
Accrued sick leave	(1,930)	3,191
Net cash provided by operating activities	<u>\$ 1,276,402</u>	<u>\$ 2,850,616</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 1,987,087</u>	<u>\$ 2,366,933</u>
Reconciliation of Cash and Cash Equivalents per Statement of Cash Flows to the Statement of Net Position		
Cash and cash equivalents	\$ 7,053,251	\$ 10,541,002
Restricted cash and cash equivalents	1,460,569	292,909
	<u>\$ 8,513,820</u>	<u>\$ 10,833,911</u>

See the accompanying notes.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Panama City - Bay County Airport and Industrial District ("the 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 personnel 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, 2014 AND 2013**

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 \$163,888 and \$166,876 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, no allowance for uncollectible accounts was considered necessary.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Recently Issued Accounting Pronouncements:

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This statement will improve financial reporting of public employee pensions by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The District has implemented GASB Statement No. 67 in this report.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of the state and local governmental employers. The requirements of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014. The District has not determined the financial impact, if any, of this statement.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The District has not determined the financial impact, if any, of this statement.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

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, 2014 and 2013, restricted assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents –		
Construction	\$ 507	\$ 257,718
PFC Excess Cash	1,419,987	4,811
Debt Service Reserve	696	695
Forfeiture Funds	624	8,936
Law Enforcement Trust	26,755	8,749
Escrow Fund	12,000	12,000
Accounts Receivable - PFC	<u>177,888</u>	<u>157,478</u>
	<u>\$ 1,638,457</u>	<u>\$ 450,387</u>

NOTE 3 - 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, 2014 AND 2013**

NOTE 4 - LONG-TERM LIABILITIES

Changes in long-term liabilities are summarized as follows:

	<u>Balance October 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2014</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.	\$23,352,435	\$ 0	\$ 593,862	\$ 22,758,573	\$ 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.	<u>19,845,105</u>	<u>0</u>	<u>508,625</u>	<u>19,336,480</u>	<u>0</u>

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 4 - LONG-TERM LIABILITIES (Continued)

Changes in long-term liabilities are summarized as follows:

	Balance October 1, 2013	Increases	Decreases	Balance September 30, 2014	Due in One Year
Total Long-term Debt	43,197,540	0	1,102,487	42,095,053	0
Total Compensated Absences	170,422	19,828	22,753	167,497	25,017
Total Long-term Liabilities	\$ 43,367,962	\$ 19,828	\$ 1,125,240	\$ 42,262,550	\$ 25,017

Debt service requirements to maturity for long-term debt subsequent to September 30, 2014, are as follows:

Year Ended	State Infrastructure Bank Loan Agreement		State Infrastructure Bank Loan Agreement	
	Principal	Interest	Principal	Interest
2016	\$ 621,180	\$ 1,046,894	\$ 532,022	\$ 889,478
2017	649,754	1,018,320	556,495	865,005
2018	679,643	988,431	582,094	839,406
2019	710,906	957,168	608,870	812,630
2020	743,608	924,466	636,878	784,622
2021-2025	4,263,704	4,076,666	3,651,736	3,455,764
2026-2030	5,338,821	3,001,548	4,572,543	2,534,957
2031-2035	6,685,037	1,655,332	5,725,536	1,381,964
2036-2037	3,065,920	211,822	2,470,306	167,106
	<u>\$ 22,758,573</u>	<u>\$ 13,880,647</u>	<u>\$ 19,336,480</u>	<u>\$ 11,730,932</u>

The Florida Department of Environmental Protection ("DEP") required the District to establish a management endowment to earn interest, which would be used to pay mitigation costs. In lieu of an endowment, the District 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, 2014, there were no draws on the letter of credit.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 5 - LEASES

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

	<u>2014</u>	<u>2013</u>
Noncancellable leases-		
Minimum rentals	\$ 3,081,183	\$ 2,801,195
Contingent rentals	<u>2,540,148</u>	<u>3,527,163</u>
	<u>\$ 5,621,331</u>	<u>\$ 6,328,358</u>

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, 2014, for the next five years are as follows:

2015	\$ 3,023,726
2016	1,211,744
2017	1,230,277
2018	1,263,655
2019	468,894

The approximate carrying value and accumulated depreciation pertaining to property held for rental included on the Statements of Net Position at September 30, 2014 is not readily determinable.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 6 - 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 District 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.

NOTE 7 - 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 District filed counter claims against Phoenix Construction, Atkins, and Kellogg Brown and Root Services, Inc. ("KBR") and KBR filed a claim against the District 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 District and KBR went to court, with KBR prevailing on all claims. Thereafter, the District's share of the settlement was disbursed, with the District receiving \$1,333,719. The claims against KBR were appealed by the District. The appeal was successful, so while the District does not have potential for additional liability, there could be more favorable outcome through further legal action.

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 project.

Contract Commitments:

At September 30, 2014, the District had contractual commitments of approximately \$2,405,299 for construction of airport projects. Funding of these future expenditures is expected to be received from federal grants, state grants, and current operations.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 7 - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS (Continued)

Airlines:

In March 2015, United Airlines and Silver Airways began serving the Northwest Florida Beaches International Airport. United provides daily flights to George Bush Intercontinental Airport in Houston, and Silver provides daily flights to Tampa and Orlando. In addition, in March 2015, Southwest Airlines added Dallas flights to their schedule. These additions will result in increased revenues to the District through landing fees, terminal rents, and concessions. In addition, the increased traffic will result in an increase in PFC collections.

Subsequent Events:

The District did not have any other subsequent events requiring disclosure or recording in these financial statements through April 6, 2015, which is the date these financial statements were issued.

NOTE 8 - 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, 2014 and 2013, is \$156,487 and \$157,482, 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.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 9 - 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 and can only be amended by an action of the Board. 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 plan had 50 participants at September 30, 2014 and 2013.

The District's total salaries expensed in fiscal year 2014 and 2013 were \$2,180,195 and \$2,045,646, respectively. The District's contributions were calculated using the salary amount of approximately \$2,117,711 and \$2,043,641 for September 30, 2014 and 2013, respectively. The retirement expense by the District was \$220,923 and the amount contributed was \$220,923 for the year ended September 30, 2014; the expense for the year ended September 30, 2013 was \$207,210 and the amount contributed was \$207,210. Any difference between pension expense and the amount contributed results from pension forfeitures.

NOTE 10 - 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.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 10 - DEPOSITS AND INVESTMENTS (Continued)

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, 2014, 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	\$ 6,037

NOTE 11 - 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.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 11 - BUDGET TO ACTUAL - REVENUES AND EXPENSES (Continued)

For the year ended September 30, 2014, the District's actual operating revenues were less than budgeted operating revenues by \$1,759,083, due to revenue sharing with the airlines of \$1,442,006, and actual operating expenses exceeded budgeted operating expenses by \$11,930,540. The actual operating expenses increase over budgeted operating expenses was due to the following:

- \$12,740,227 in depreciation expense that was not budgeted by the District in 2014.

For the year ended September 30, 2013, the District's actual operating revenues were less than budgeted operating revenues by \$2,078,557, due to revenue sharing with the airlines of \$1,818,352 and actual operating expenses exceeded budgeted operating expenses by \$12,964,122. The actual operating expenses increase over budgeted operating expenses was primarily due to \$12,671,647 in depreciation expense that was not budgeted by the District in 2013.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND 2013**

NOTE 12 - CAPITAL ASSETS

Changes in capital assets were as follows:

	Balance 9/30/12	Increases	Decreases	Balance 9/30/13	Increases	Decreases	Balance 9/30/14
Capital assets, not being depreciated:							
Land	\$ 67,127,613	\$ 570,760		\$ 67,698,373	\$ 2,971,188		\$ 70,669,561
Construction in progress	1,559,099	5,582,930	\$ 906,592	6,235,437	3,596,885	\$ 5,144,069	4,688,253
Total capital assets, not being depreciated	68,686,712	6,153,690	906,592	73,933,810	6,568,073	5,144,069	75,357,814
Capital assets, being depreciated:							
Buildings and improvements	186,232,822			186,232,822	60,555		186,293,377
Improvements other than buildings	108,917,658	284,700		109,202,358	1,854,867		111,057,225
Furniture and equipment	7,698,610	154,123		7,852,733	340,677	67,530	8,125,880
Total capital assets, being depreciated	302,849,090	438,823		303,287,913	2,256,099	67,530	305,476,482
Less accumulated depreciation for:							
Buildings and improvements	10,677,550	4,775,210		15,452,760	4,780,022		20,232,782
Improvements other than buildings	15,823,089	7,223,749		23,046,838	7,237,543		30,284,381
Furniture and equipment	4,550,673	672,688		5,223,361	722,662	65,713	5,880,310
Total accumulated depreciation	31,051,312	12,671,647		43,722,959	12,740,227	65,713	56,397,473
Total capital assets being depreciated, net	271,797,778	(12,232,824)		259,564,954	(10,484,128)	1,817	249,079,009
Capital assets, net	\$340,484,490	\$ (6,079,134)	\$ 906,592	\$333,498,764	\$ (3,916,055)	\$ 5,145,886	\$ 324,436,823

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULES OF BUDGETED AND ACTUAL RECEIPTS AND EXPENSES
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	2014		2013
	Budget	Actual	Actual
Operating Revenues			
Airline-			
Passenger airline landing fees	\$ 2,978,328	\$ 1,870,099	\$ 1,848,997
Cargo airline landing fees	16,200	17,434	22,053
Terminal rentals and common use	1,775,126	1,051,931	938,952
Total airline revenue	4,769,654	2,939,464	2,810,002
Car rentals-			
Concession fee	1,800,000	1,804,138	1,810,797
Customer facility charge	1,725,000	1,718,424	1,739,179
Total car rental revenue	3,525,000	3,522,562	3,549,976
Terminal complex-			
Public and employee parking	2,200,000	2,240,638	2,089,264
Ground transportation fees	45,000	77,398	70,075
Food & beverage concession	215,000	224,482	221,412
Retail merchandise concession	80,000	87,605	77,324
Advertising	135,000	126,234	135,151
Other terminal revenue	116,700	117,064	107,235
Total terminal complex revenue	2,791,700	2,873,421	2,700,461
General aviation -			
Fixed base operator rents	175,000	174,085	171,105
Fuel flowage fees	30,000	35,178	31,453
Hangar rentals	220,000	215,338	248,044
Total general aviation revenue	425,000	424,601	450,602
Other revenue -			
Other tenants/miscellaneous	65,000	67,580	68,391
Fuel farm	140,000	139,714	139,714
Cargo building rental	15,800	5,729	18,297
Total other revenue	220,800	213,023	226,402
Total operating revenues	11,732,154	9,973,071	9,737,443

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, 2014 AND 2013

	2014		2013
	Budget	Actual	Actual
Operating Expenses			
Personnel Costs -			
Salary and wages	\$ 2,235,301	\$ 2,180,195	\$ 2,045,646
Overtime	57,808	44,904	58,556
FICA contributions	179,695	162,371	151,570
Group insurance	401,028	399,660	327,163
Retirement	231,152	220,923	207,210
Workers compensation insurance	57,000	74,133	49,595
Other employee costs	38,036	36,661	33,290
Total personnel costs	3,200,020	3,118,847	2,873,030
Purchased services -			
Janitorial	625,500	612,169	607,311
Bank charges	99,000	98,362	102,670
Computer services	244,395	197,647	120,760
Elevator/escalator services	30,000	38,533	27,886
Financial	21,000	20,200	34,165
Legal services	175,000	87,615	1,360,381
BHS/loading bridge maintenance	386,100	323,548	374,880
Marketing and advertising	230,000	158,832	163,540
Parking lot management	400,000	334,944	346,594
Professional services	545,000	324,794	331,086
Security services and system maintenance	169,680	177,038	104,718
Trash removal	20,000	19,052	19,634
Postage/copy services	11,500	11,198	11,101
Radios and PA	26,715	25,736	20,857
Terminal/facility services	78,140	58,202	46,897
Other services and maintenance	97,050	74,927	110,503
Total purchased services	3,159,080	2,562,797	3,782,983
Supplies and materials -			
Office supplies	16,050	15,979	21,031
Fuel, oil, tires, vehicles, equipment	86,900	63,325	77,353
Airfield and grounds	235,700	160,260	134,088
Buildings (including loading bridges)	54,500	58,275	50,384
Uniforms	17,000	10,778	14,215
Other materials and supplies	57,350	34,294	56,253
Total supplies and materials	467,500	342,911	353,324
Utilities -			
Electricity	648,000	650,020	609,931
Telephone	56,800	40,745	88,624
Water and sewer	126,000	177,846	126,668
Total utilities	830,800	868,611	825,223

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, 2014 AND 2013

	2014		2013
	Budget	Actual	Actual
Operating Expenses (continued)			
Insurance -			
Building and contents	\$ 191,000	\$ 184,584	\$ 183,929
Liability	51,500	57,571	46,451
Vehicle and equipment	8,300	8,415	7,444
Total insurance expense	<u>250,800</u>	<u>250,570</u>	<u>237,824</u>
Other expenses -			
Dues and subscriptions	37,900	30,125	33,267
Promotions and special events	9,000	5,510	4,353
Travel and conference	32,300	15,415	15,649
Training	27,900	13,657	2,695
Miscellaneous expense	5,050	2,220	227
Total other expense	<u>112,150</u>	<u>66,927</u>	<u>56,191</u>
Total	8,020,350	7,210,663	8,128,575
Depreciation	-	12,740,227	12,671,647
Total operating expenses	<u>8,020,350</u>	<u>19,950,890</u>	<u>20,800,222</u>
Excess operating revenues (expenses)	<u>3,711,804</u>	<u>(9,977,819)</u>	<u>(11,062,779)</u>
Nonoperating Receipts (Expenses)			
PFC revenues	1,721,000	1,435,586	1,482,204
Unrealized gain on investments	-	2,098	2,410
Gain on disposal of assets/land	-	9,198	376,870
Interest earned	6,000	6,776	5,916
Interest revenue	(1,991,407)	(1,987,087)	(1,945,793)
Grants	17,393,607	2,793,047	4,000,105
Other revenue	-	-	316,339
Proceeds from insurance	-	33,605	-
Proceeds from litigation	-	-	7,537,222
Capital projects expense -			
Airport portion	(3,669,217)	(981,956)	(1,868,595)
Non-Airport portion	(17,298,707)	(2,698,147)	(3,905,205)
	<u>(3,838,724)</u>	<u>(1,386,880)</u>	<u>6,001,473</u>
Excess Receipts (Expenses)	<u>\$ (126,920)</u>	<u>\$ (11,364,699)</u>	<u>\$ (5,061,306)</u>

See independent auditor's report.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF CONSTRUCTION WORK-IN-PROGRESS
SEPTEMBER 30, 2014**

<u>Project Number</u>		
AIP7/AR057	Mitigation	\$ 1,696,404
Not Awarded	Crosswind runway	28,336
AR057	Apron expand	1,402,810
AIP7	Master plan	469,313
Not Awarded	404 permit	203,449
AO264/AOM25	Environmental assessment	764,333
Not Awarded	Environmental assessment - phase 2	<u>123,608</u>
		<u>\$ 4,688,253</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, 2014**

	<u>Airport Funding</u>	<u>FAA/FDOT Funding</u>	<u>DHS Funding</u>	<u>Total</u>
Revenues				
Operating revenues	\$ 9,973,071	-	-	\$ 9,973,071
Capital grants -				
FAA	-	\$ 2,085,153	-	2,085,153
FDOT	-	612,994	-	612,994
DHS	-	-	\$ 94,900	94,900
Other revenue	-	-	-	-
PFC revenues	1,435,586	-	-	1,435,586
Unrealized gain on investments	2,098	-	-	2,098
Gain on disposal of assets	9,198	-	-	9,198
Proceeds from insurance	33,605	-	-	33,605
Interest revenue	6,776	-	-	6,776
Total revenues	<u>11,460,334</u>	<u>2,698,147</u>	<u>94,900</u>	<u>14,253,381</u>
Expenses				
Personnel	3,023,947	-	94,900	3,118,847
Purchased services	2,562,797	-	-	2,562,797
Supplies and materials	342,911	-	-	342,911
Utilities	868,611	-	-	868,611
Insurance	250,570	-	-	250,570
Other expense	66,927	-	-	66,927
Depreciation	12,740,227	-	-	12,740,227
Interest expense	1,987,087	-	-	1,987,087
Non-Grant funded capital items	215,518	-	-	215,518
Grant funded capital project	766,438	2,698,147	-	3,464,585
Total expenses	<u>22,825,033</u>	<u>2,698,147</u>	<u>94,900</u>	<u>25,618,080</u>
Excess Revenues (Expenses)	<u>\$ (11,364,699)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,364,699)</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, 2014**

404 Permitting	\$ 2,750 •
Crosswind runway	669 •
Environmental assessment- phase 2	123,608 •
Security equipment	2,241 ✓
Air conditioning system	6,500 ✓
Carpet	2,619 ✓
Touchscreen for ATCT	10,973 ✓
Computers and printers	12,322 ✓
Server	21,536 ✓
T Hangar door	27,028 ✓
Maintenance equipment	5,272 ✓
	<hr/>
	\$ 215,518

See independent auditor's report.

**PANAMA CIT , - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF GRANT FUNDED CAPITAL ITEMS
EXPENDED DURING THE YEAR ENDED SEPTEMBER 30, 2014**

Project Number	Description	Airport Funding	FAA Funding	FDOT Funding	Total
Capital Projects:					
AIP7/ARO57	Mitigation	\$ 114,151	\$ 672,808	\$ 36,827	\$ 823,786
AIP5/AP976	Master plan	10,889	157,047	3,990	171,926
AIP6/AQF14	SMS modifications	67,860	22,049	8,360	98,269
AQF14	Covered parking	518,143	-	494,429	1,012,572
AIP7/ARO57	Ramp expansion	42,210	1,233,249	60,172	1,335,631
Total		<u>753,253</u>	<u>2,085,153</u>	<u>603,778</u>	<u>3,442,184</u>
Equipment Purchases:					
AQF12/AQF14	Maintenance equipment	10,495	-	6,526	17,021
APR20	Radios	2,690	-	2,690	5,380
Total		<u>13,185</u>	<u>-</u>	<u>9,216</u>	<u>22,401</u>
Total Grant Funding		<u>\$ 766,438</u>	<u>\$ 2,085,153</u>	<u>\$ 612,994</u>	<u>\$ 3,464,585</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 (Decrease) 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	Operating Revenues and Contributions		
2014	2%	\$ 9,973,071	\$ 19,950,890	\$ (9,977,819)	\$ 1,435,586	\$ 2,793,047	(5,749,186)	\$	3,680,103
2013	-6%	9,737,443	20,800,222	(11,062,779)	1,482,204	4,000,105	(5,580,470)		5,773,800
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

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
2014	\$ 0
2013	0
2012	0
2011	0
2010	0
2009	0
2008	0
2007	430,631
2006	430,631
2005	430,631

* 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, 2014**

	CFDA/ CFSA Number	Balance October 1, 2013	Adjustments(2)	Cash Receipts	Expenditures	Balance September 30, 2014 (1)
<u>Federal Aviation Administration</u>						
3-12-0159-004-2011	20.106	\$ (250,894)	\$ 12,565	\$ 201,507	\$ -	\$ (36,822)
3-12-0159-005-2011	20.106	(11,364)	-	162,984	(157,047)	(5,427)
3-12-0159-006-2012	20.106	(153,693)	-	175,742	(22,049)	-
3-12-0159-007-2014	20.106	-	-	-	(1,918,622)	(1,918,622)
Total FAA		<u>\$ (415,951)</u>	<u>\$ 12,565</u>	<u>\$ 540,233</u>	<u>\$ (2,097,718)</u>	<u>\$ (1,960,871)</u>
<u>Florida Department of Transportation</u>						
AQF 12	55004	\$ (2,636)	\$ -	\$ 8,662	\$ (6,026)	\$ -
AQF 13	55004	(15,888)	-	17,766	(1,878)	-
AQF 14	55004	(491,764)	-	989,928	(499,941)	(1,777)
APR 20	55004	-	-	-	(2,690)	(2,690)
AP 976	55004	-	-	3,990	(3,990)	-
AR 057	55004	-	-	54,642	(98,469)	(43,827)
Total FDOT		<u>\$ (510,288)</u>	<u>\$ -</u>	<u>\$ 1,074,988</u>	<u>\$ (612,994)</u>	<u>\$ (48,294)</u>
<u>Department of Homeland Security</u>						
HSTS02-13-HS-LR017		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,980</u>	<u>\$ (94,900)</u>	<u>\$ (23,920)</u>
		Cash/Investments/ Receivables October 1, 2013		Revenue*	Expended	Cash/Investments/ Receivables September 30, 2014 (1)
Passenger facility charges		<u>\$ 162,289</u>		<u>\$ 1,435,586</u>	<u>\$ -</u>	<u>\$ 1,597,875</u>

* Includes interest earnings of \$387

(1) Includes receivable.

(2) 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**

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

We have audited, in accordance with the 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, the financial statements of the business-type activities of Panama City - Bay County Airport and Industrial District, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Panama City - Bay County Airport and Industrial District's basic financial statements, and have issued our report thereon dated April 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Panama City - Bay County Airport and Industrial District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of Panama City - Bay County Airport and Industrial District's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Panama City, Florida
April 6, 2015

A handwritten signature in black ink, appearing to read "R. J. Martin, CPA, Chartered".



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, STATE PROJECT, AND PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

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

Report on Compliance for Each Major Federal Program

We have audited Panama City – Bay County Airport and Industrial District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, the requirements described in the Department of Financial Services' State Projects Compliance Supplement, and the requirements described in the Passenger Facility Audit Guide for public agencies, issued by the Federal Aviation Administration for its passenger facility charge program that could have a direct and material effect on each of Panama City - Bay County Airport and Industrial District's major federal, state, and Passenger Facility Charge programs for the year ended September 30, 2014. Panama City - Bay County Airport and Industrial District's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal, state, and Passenger Facility Charge programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Panama City - Bay County Airport and Industrial District's major federal and state programs and Passenger Facility Charge program based on our audit of the types of compliance requirements referred to above. 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*, and Chapter 10.550, *Rules of the Auditor General*. Those

Standards, OMB Circular A-133, and Chapter 10.550 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 and state 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 on compliance for each major federal and state program and Passenger Facility Charge program. However, our audit does not provide a legal determination of Panama City - Bay County Airport and Industrial District's compliance.

Opinion on Each Major Federal Program, State Program, and Passenger Facility Charge Program

In our opinion, Panama City - Bay County Airport and Industrial District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs, state programs, and Passenger Facility Charge programs for the year ended September 30, 2014.

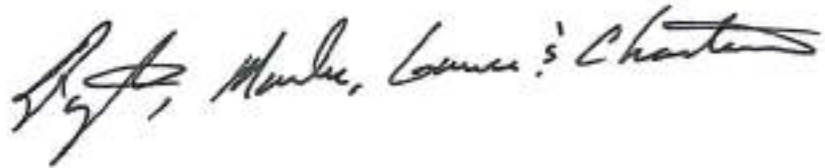
Report on Internal Control Over Compliance

Management of Panama City - Bay County Airport and Industrial District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Panama City - Bay County Airport and Industrial District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program, state program and Passenger Facility Charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program, and Passenger Facility Charge program and to test and report on internal control over compliance in accordance with OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, 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 internal control over compliance exists when the design or operation of a control over compliance 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 and state program and 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 and state program and Passenger Facility Charge program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal and state program and Passenger Facility Charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "R. J. Munk, County of Chatham". The signature is written in a cursive, flowing style.

Panama City, Florida
April 6, 2015

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE PROJECTS
YEAR ENDED SEPTEMBER 30, 2014**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the Panama City – Bay County Airport and Industrial District's basic financial statements.
2. No significant deficiency in internal control was disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Panama City – Bay County Airport and Industrial District were disclosed during the audit.
4. No significant deficiency in internal control over a major Federal program or State project is reported in the Independent Auditor's Report on Compliance for each major Federal program, State project and Passenger Facility Charge program and on Internal Control Over Compliance Required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.
5. The auditor's report on compliance with requirements that could have a direct and material effect on each major Federal program and State project for the 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, nor did our audit disclose any finding 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:

Federal Program	Federal CFDA No.
Federal Aviation Administration	20.106
State Project	State CSFA No.
Florida Department of Transportation	55004

8. The threshold for distinguishing Type A and Type B programs/projects was \$300,000 for major Federal programs and \$300,000 for major state projects.
9. The Panama City - Bay County Airport and Industrial District was determined to be a low-risk audit pursuant to OMB Circular A-133.

**PANAMA CITY - BAY COUNTY
AIRPORT AND INDUSTRIAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014**

B. FINDINGS – FINANCIAL STATEMENT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

NONE

D. FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

NONE

E. 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 or Florida Single Audit Acts.



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

Report on the Financial Statements

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, 2014 and have issued our report thereon dated April 6, 2015.

Auditor's Responsibility

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 Auditor General.

Other Reports and Schedule

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 for Each Major Federal Program, State Project, and Passenger Facility Charge Program and Report on Internal Control over Compliance Required by OMB Circular A-133 and Chapter 10.550, Rules of the Florida Auditor General; and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 6, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

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.

Official Title and Legal Authority

Section 10.554(1)(i)4., 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.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not Panama City - Bay County Airport and Industrial District 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.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), 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.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the Panama City - Bay County Airport and Industrial District for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with the audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Panama City, Florida
April 6, 2015

Atty. Martin, Louise & Charles